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COMPETITION AND COMBINATION IN THE WHOLESALE GROCERY TRADE IN PHILADELPHIA

BY

WILLIAM LEWIS ABBOTT

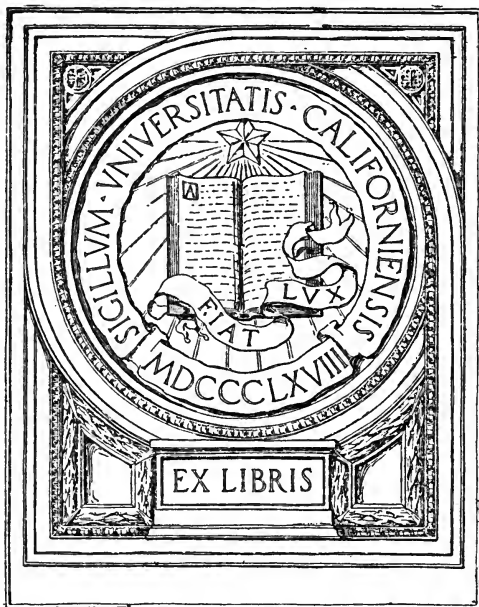
A THESIS

PRESENTED TO THE FACULTY OF THE GRADUATE SCHOOL IN
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE DEGREE OF DOCTOR OF PHILOSOPHY

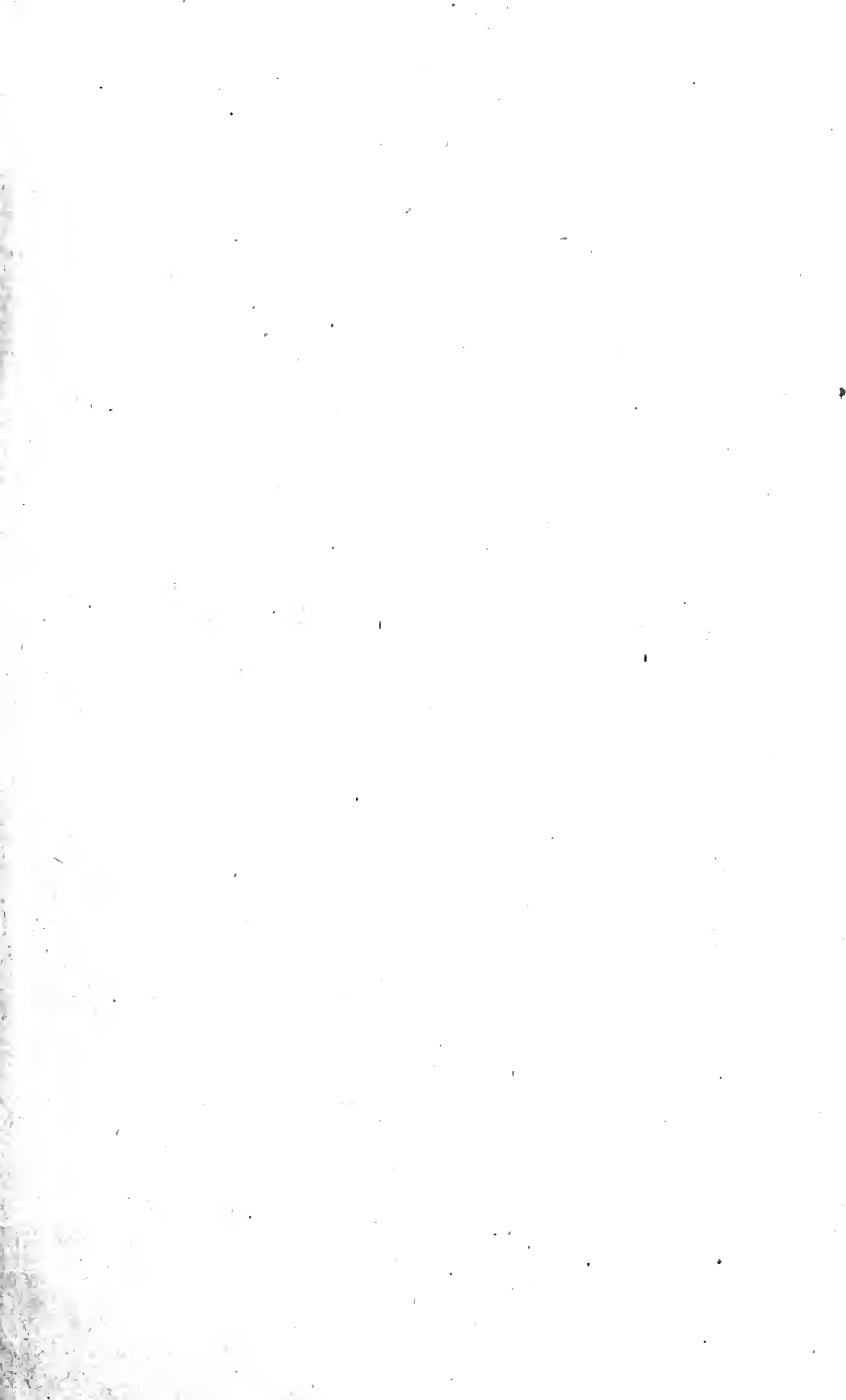
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CHAPTER I

THE PLACE OF THE WHOLESALER IN THE DISTRIBUTION OF GROCERIES

One of the results of the rapidly increasing food prices of the past years has been to attract particular attention, both from the general public and from students of political economy, to the system of marketing food products.¹ The questions have been raised whether the system is as efficient as it might be, whether part of the high prices may justly be charged to wastefulness or inefficiency in the system and whether it may not be improved in some ways with a resulting reduction in the expenses of marketing, and therefore in prices to consumers.

Two of the points of attack in this criticism have been the wholesaling and retailing processes. These two are the most expensive links in the chain of agencies connecting the manufacturer or grower of food products with the consumer. The average cost of doing business of wholesale grocers in the eastern section of the country seems to be about 8.5 per cent of gross sales. Figures gathered by the Harvard Bureau of Business Research show that the common cost of doing business for 108 wholesale grocers throughout the United States is 9.5 per cent.² At the Tri-State Wholesale Grocers' Convention held in Philadelphia March thirteenth, 1918, a report by a committee on "The License System in Its Relation to the Cost of Doing Business" stated that reports from wholesale grocers in eastern Pennsylvania, New Jersey and Delaware showed an average cost of 8.6 per cent.³ Classifying the reporting firms according to sections of the territory, it was found that the highest figures for a sectional group were

¹ According to the figures of the United States Bureau of Labor Statistics, the prices of the principal articles of food in the United States were 84 per cent higher in September, 1919, than in 1913. U. S. Bureau of Labor Statistics: *Monthly Labor Review*, November 1919, p. 132.

² Bureau of Business Research, Harvard University, *Bulletin No. 9. Operating Expenses in the Wholesale Grocery Business*, p. 5.

³ *American Grocer*, March 20, 1918, p. 9.

10.06 per cent for those in the Lehigh Valley district, and the lowest 8.19 per cent for those in Philadelphia and Camden. Of the two sets of figures, probably those of the Harvard Bureau are based upon the most accurate study. They are compiled from the statements of wholesale grocers who have adopted a uniform system of accounting prepared by the Bureau in co-operation with the National Wholesale Grocers' Association. Figures received from fifty-one grocers were not used because their reports could not be adjusted to the accounting system.⁴ Even with the system of uniform accounting, there appear to be possibilities of different methods of reckoning the various items, such as net sales, gross margin, etc.

If we accept 8.5 per cent of net sales as the common cost of doing business, the wholesaler must then add 9.29 per cent to the prices at which he purchases, simply to cover expenses. That is, a margin of 8.5 per cent of the sales is equal to an increase of 9.29 per cent on the purchase price. If the grocer sells \$100,000.00 worth of goods in a year, his expenses, 8.5 per cent of that, have been \$8,500.00. If the goods cost him \$91,500.00 he has just made expenses. He has marked up the goods, however, by 9.29 per cent of the price which he paid (\$8,500.00 increase on a base of \$91,500.00). Similarly, if we take the figures of the Harvard Bureau, 9.5 per cent of sales as cost of doing business, the wholesaler must mark up his goods, on the average by 10.5 per cent of the purchase price which he pays to equal the 9.5 per cent of the sales price on which he figures cost of doing business. This means that to make a profit, he must add about 12 per cent to the price. The figures of the Bureau of Business Research of Harvard University show that the wholesalers are selling at an increase of from 7.7 per cent to 17.2 per cent of the prices which they charge with a mode of about 12 per cent.⁵ This is equal to an increase of 13.64 per cent of the prices at which the wholesaler buys. It seems safe to say, then, that the wholesale

⁴ *Op. cit.*, p. 3.

⁵ *Bulletin No. 9*, p. 5.

grocer, on the average, increases the prices of the goods which he handles by from 12 to 14 per cent.

The costs of the retail grocer, and the increase in price attributable to him are even higher. It is generally reckoned that the cost of doing business of the independent retail grocery store is 18 per cent of sales.⁶ The Harvard Bureau of Business Research gives the common figure of expenses at 16.5 per cent of sales and the gross profit 21 per cent of sales.⁷ Here again, if the margin between purchases and sales is 21 per cent of the latter, it is 26.58 per cent of the former. The retailer then must add 25 or 26 per cent to the prices which he pays the wholesaler.

These figures mean that, out of the prices paid by the purchaser at the grocery store, 28.5 per cent, on the average, goes to the retailer and wholesaler; or, putting it the other way, that these two agencies increase the prices of the goods passing thru their hands by 40 per cent.

It is with the part of the wholesaler that this paper is particularly concerned. Against him, a number of charges have been lodged. It has been alleged that he is an unnecessary and superfluous link in the chain connecting the manufacturer with the consumer; that he performs his function inefficiently; that he adds to prices without performing any commensurate service. Particularly at the immediate present there appears to be a very general feeling that the wholesaler habitually indulges in "speculation" and "profiteering" in food-stuffs. The newspapers print cartoons representing gentlemen in high silk hats, afflicted with an extreme rotundity, supposedly as a result of swollen profits. These are labeled "Middleman" or with some similar designation. The slogan "Eliminate the middleman" is frequently quoted as a solution of the high cost of food, at least in part.

In the course of mercantile development, several plans for the elimination of the wholesaler, or the curtailment of his

⁶ Grocers' Review, September 1917, p. 494.

E. M. Patterson, The Cost of Distributing Groceries, in The Annals of the American Academy of Political and Social Science, November 1913, p. 75.

⁷ Bureau of Business Research, Harvard University, Bulletin No. 5. Expenses in Operating Retail Grocery Stores, p. 7.

functions, have been suggested. Some of these have been tested in actual practice. Municipal marketing projects have been carried on in various cities, ranging from the simple device of permitting farmers and hucksters to line up along the sidewalk in some street, to the erection of municipal cold storage plants, warehouses, and market-houses. The Post Office has urged a more extensive use of the parcel post in the marketing of food products. Plans of co-operative marketing have been tried.

These last have been of two main types—consumers' co-operation and retailers' co-operation. In the former, a number of consumers have formed an association for the purchasing of the goods desired. In a typical form of such an association, each member subscribes a part of the capital, this is invested in a stock of goods, these are sold, and from the proceeds, after deducting expenses, interest is paid on the capital. The remaining profits are then divided among the purchasers, in proportion to the amount of goods purchased.

In the second form, the co-operators are retailers. In several lines of merchandising, the retailers in certain cities have organized and carried on with much success co-operative wholesale houses. In the typical form of such an organization, a group of retailers, such as druggists or grocers, incorporate themselves as a wholesale company. The stock will be subscribed by the retailers, with two important provisions: first, that no stock shall be held by any person not connected with a retail store in the trade concerned; and, second, that each member, and not each share of stock shall have one vote. Such co-operative wholesale associations usually sell at prices somewhat lower than the regular wholesalers, but with a curtailment of the services furnished by the latter. In addition, the stockholders, at the end of stated periods, receive, if their venture has been successful, dividends on their own wholesale business. There are a number of such associations now carrying on wholesale businesses in the drug trade, and in the grocery trade.⁸ The writer has been informed that there

⁸ The organization and methods of the co-operative buying associations of retail druggists are described in an article by L. D. H. Weld, *Co-operative Buying by Retail Druggists*, in *The Druggists' Circular*, vol. lxi, pp. 119-123 (March 1917).

are some in the tobacco trade, also, but has not made a personal inquiry in regard to them.

Retailers' co-operation in the grocery trade has had an especially large development in Philadelphia. There are in that city two strong associations of retail grocers, each conducting a co-operative wholesale business running into millions of dollars a year, with two of the largest grocery warehouses in the city. In view of the present agitation in regard to the system of food distribution, and the value of the middleman, this development is of particular interest. The co-operative associations of retailers are nothing less than substitutes for the wholesaler. Instead of depending upon the established wholesalers, the retailers are combining their purchases into wholesale quantities, conducting their own wholesale distributions, and taking to themselves the profits of both the wholesale and retail processes.

When the development is viewed in this light, there are a number of interesting questions which suggest themselves. It is the object of this paper to make a study of the development of these co-operative buying associations in Philadelphia and the attempts of the independent wholesalers to meet the situation created by the wide scope of their activities, and to discuss some of these questions. There are two to which particular attention will be paid. First, the effect upon the efficiency of the system of marketing groceries: Do the co-operative associations represent more efficient and economical methods of distribution than the older type of independent wholesalers? Second, the effect upon the status of the independent wholesaler: Does the development of the associations represent a tendency toward the elimination of the wholesaler from the grocery business?

In order to discuss these questions adequately, it is necessary to have a somewhat detailed knowledge of the present system of marketing groceries, and the situation created by the development of the co-operative associations. This means that we must have a knowledge of the history and functions of the wholesale grocer; that we must consider his situation in

Philadelphia at the present time; and that we must examine his efforts to meet that situation.

In connection with the first of these, the historical development and functions of the wholesale grocer, it should be noted that most retail grocery stores handle several distinct lines of goods. Of course, they handle groceries. But this term itself includes a number of different types of goods. They are generally regarded as falling into two principal groups. The first group includes package, bottled and canned goods, and similar articles. These goods have passed thru a process of manufacturing and are received by the retailer in the packages which are delivered to the purchaser. The second group includes the staple articles, such as sugar, coffee, tea, flour, cereals in bulk, and similar goods. These goods have, like the preceding, passed thru a manufacturing or refining process, but they are received by the retailer in bulk, not in packages, bottles or cans ready to be delivered to the consumer. There are several obvious, but, from the standpoint of marketing and selling, rather important differences in these two classes of goods. The package good goes into the consumer's home bearing the manufacturer's label. It has behind it, to this degree, his guarantee, and his reputation depends upon the satisfaction which it gives. The good which is sold in bulk usually goes into the home with no mark showing the manufacturer. Frequently, the consumer does not know who the manufacturer is. If satisfied, he cannot be sure of getting the same manufacturer's product next time. If dissatisfied, he cannot be certain that he may not receive the same product, even tho he goes to another store. The reputation of the maker is not nearly so closely linked, in the mind of the purchaser, with the output, as it is in the case of the goods which come into the home plainly labeled.

Another difference lies in the fact that the bulk goods are weighed and wrapped in the retail store, while the package goods are simply taken down from the retailer's shelves and handed to the purchaser.

The tendency at the present time is for more and more of the staples to be put up in packages, bearing the maker's,

refiner's, packer's or importer's name, thus becoming package goods. Thus, where a few years ago, sugar, tea, coffee, biscuits, and numerous other articles were sold largely in bulk, and weighed out from bins by the retail grocer, now a large proportion of them is put up in packages by the respective manufacturers, and sold under their brands. During the war, a number of sugar manufacturers published advertisements urging the public to buy sugar put up in packages as a more economical method of selling than the older method of the retailer weighing it out and putting it up in paper bags. A few years ago, The National Biscuit Company published advertisements urging the greater cleanliness and healthfulness of purchasing biscuits in packages, rather than in bulk.

Many grocers do not confine themselves to the handling of those goods which we have included under the term groceries. They also handle farm products, such as perishable fruits and vegetables; imported fruits; dairy products; meats; candies; cigars; and so forth. None of these terms can, of course, be regarded as strictly and scientifically classificatory. Even the word "groceries" itself, as used by those engaged in the business, seems to be an elastic and indefinite term. Cheese, for instance, may be regarded as a dairy product, or as a grocery. This paper, however, is particularly concerned, with the marketing of groceries, including under that term the two classes of goods described above:—food products put up in packages of some kind, and non-perishable staples.

In the past, the distribution of these goods has usually been carried on from the manufacturer, thru the wholesaler to the retailer. Frequently, one hears one of these agencies referred to as the "jobber." Again, there is a lack of definiteness in the popular usage, with the result that there is much confusion in the use of the two terms "jobber" and "wholesaler." Originally, there seems to have been a distinction between the two. The wholesaler brought the goods into a city, having them shipped to him from the manufacturers in large quantities. The jobber purchased in quantity from the wholesaler, but of course, in smaller quantities than the wholesale shipments

from the manufacturers, and resold in small quantities to the retailers. At the present time, both of these functions are filled by one firm, which brings the goods in in large quantities, and resells them to the retailers. The result is that the two terms are used in the trade practically interchangeably.

In the handling of some lines of goods, brokers have intervened between the manufacturer and wholesaler, as in the handling of canned foods, dried fruits, coffee, spices, and other commodities. The broker developed because these lines were manufactured or imported by numbers of small houses, distant from the market and without the financial resources to employ a large selling force of their own. The canning of fruits, for instance, has been carried on by a number of small, independent enterprisers. The independent canner, at a distance from the large urban markets, would have experienced much difficulty in negotiating the sale of his goods with the various wholesalers. He stood a much better chance of disposing of his output to the best advantage if he hired a broker, in the center of trade, and in close touch with the wholesaler, to sell his goods for him. Similarly, the wholesaler found it more convenient to deal with the brokers than to negotiate with a number of canners, at a distance. The importers of coffee, and other producers in lines where the broker developed, were in much the same situation.

In the distribution of groceries the wholesaler fulfills seven distinct functions. First and most important is the function already mentioned of receiving shipments in large quantities from the manufacturers. This is practically universally regarded by authorities on marketing as a necessary and economical feature of the system. As compared with the alternative method of the manufacturer shipping directly to retailers in small quantities, it has many advantages. It means a saving in railroad freights. It saves much time and labor in the handling of shipments. It saves time and labor in packing, for every small package does not have to be packed separately to stand a long freight journey. For the same

reason, it means a saving in packing materials, and in the waste of goods in transit.

The second function of the wholesale grocer is to provide within the community, by storing these quantity shipments, a reservoir of food supplies, from which the various articles may flow out as needed. While the expense of storage is a cost that, to some extent, offsets the various advantages of the intervention of the wholesaler, this again is an economical function. To bring into a large city every day just the quantity of grocery products which would be purchased by consumers that day would involve a tremendous number of small and expensive shipments and haulings.

In the third place, the wholesaler must be ready to furnish to the retail stores the goods required, at the times needed. This means that he must make to the retail stores deliveries of small quantities of goods, at short notice. It also involves close personal touch with the retailers. When the retailer has a sudden call for something which is not in stock, or is low, he telephones to the wholesaler and expects to have the goods delivered immediately. When in doubt as to what brand of goods, or how much, to buy, he frequently relies upon the advice of the wholesale salesman. If the retailer were purchasing directly from the manufacturer, he could not have his orders quickly filled. He would have to order far in advance, and wait a long time for the arrival of his goods.

A fourth function which the wholesale grocer fulfills, in a large majority of cases, is the financing of the retail stores. It is he who furnishes the credit upon which the retailer operates. The typical retail grocer is not a man who is familiar with modern methods of finance. Those who are familiar with him agree in stating that many of the retailers in a large city are utterly ignorant of banking facilities and practice. Many of them do not even have bank accounts. Many do not keep any kind of books. During the war, the requirements of the government as to price margins and taxes made it practically necessary for the retailer to keep some kind of records of his business transactions. Various agencies, such

as the government, the associations of retail grocers, and of wholesale grocers, and food administrators, spent much effort in instructing small retailers how to keep such records, and attempting to convince them of the necessity of keeping books. This ignorance, coupled with the fact that the retailer usually sells on credit to his customers, means that he depends largely upon the wholesaler's extension of credit to him for the financing of his business. It is said that the average retailer owes the wholesaler to an amount equal to half his net worth.⁹

The fifth function of the wholesale grocer is that of regulating the flow of commodities to the local market, so that it is supplied according to its needs. This involves, on the part of the wholesaler, a knowledge of local conditions, a knowledge of outside conditions, and ability to forecast demand and supply. He must be familiar with his local market, know the kinds of goods which it will demand at various seasons, the tastes of different sections, the character and qualities of goods which it favors. To supply it, he must keep in touch with the outside sources, know where the desired goods can be secured at the best terms, what season is the most favorable for the purchase of various products, and keep in mind a thousand facts in regard to prices, prospects, and conditions of supply. From these facts, he must be able to foretell with some degree of accuracy the future conditions of demand and supply of the various goods he handles, not only in his own local community, but also in the whole outside market. One of the things for which the small retailer depends upon the salesman of the wholesalers is advice as to favorable times to lay in supplies, probable future course of prices, and the wholesaler who can give this information with a high degree of accuracy has an additional hold upon his retail customers.

In the sixth place, the wholesale grocer must furnish the business machinery to account for the large quantities of goods. Efficiency and sound economy require that the food supplies which he handles in such large quantities should be subjected to the more careful handling and pricing involved in an adequate system of accounting.

⁹ American Grocer, Sept. 4, 1918, p. 6. Corroborated by local wholesalers.

Finally, the wholesale grocer serves the manufacturer in two important ways, by promoting the sales of his goods, and by introducing to the market new products. It is, in many cases, his salesmen who bring new goods to the attention of retailers, and secure the order which make them available for the consuming public.¹⁰

All of these are essential functions in our present economic organization. They must be performed by some agency; perhaps not by the wholesale grocer, but certainly by someone. The wholesale grocer may be, in fact, has been eliminated, to some degree, in certain lines, but the functions enumerated above are, in such cases, filled by some other agency. Manufacturers may attempt to sell directly to retailers. If so, they must establish local warehouses in centers of distribution, or face the cost of much packing in small quantities and high freight rates. One of the charges brought against the packers in the present agitation is that they are supplanting the wholesale grocers, and selling not only meat products, but also other foods to the retailers. They, however, distribute their goods thru their own local warehouses.¹¹

Retailers might pay cash directly to manufacturers, but this would simply mean that the burden of financing retail stores was no longer shared by the wholesaler, but was borne by the retailer himself, or by banking connections. Chain store systems may operate their own warehouses, but they must still, to some degree, regulate the flow of commodities to the community, and forecast the market conditions. Wholesale firms may, as we shall see, dispense with salesmen, but then some other device is used for the promotion of the sales of goods and the introduction of new goods. The question, then, when we find the activity of the wholesaler curtailed in some line is, What agency is carrying on the services which the wholesale grocer usually gives, and is this agency doing the wholesaler's work more or less efficiently than the wholesaler himself?

¹⁰ Based in part upon L. D. H. Weld: *The Marketing of Farm Products*, pp. 61-62.

¹¹ Report of Federal Trade Commission on the Meat Packing Industry, Summary and Part I, pp. 41-42.

CHAPTER II

DEVELOPMENTS THREATENING THE POSITION OF THE WHOLESALE

In Philadelphia at the present time, there are taking place in the marketing of groceries a number of developments which result in other agencies such as those mentioned in the previous chapter performing some of the functions of the wholesaler. These developments, of course, mean a curtailment of the business passing thru the hands of the wholesalers. One of these is the growth of the chain store systems. These systems, operating a number of small retail stores in one community, buy in large quantities from the manufacturers, and operate their own wholesale warehouses. In 1917, there were five such systems operating in Philadelphia, The Acme Tea Company, Childs Grocery Company, Bell and Company, the George M. Dunlap Company, and Robinson and Crawford. In that year, these five companies were merged into one system, the American Stores Company. This combined company has a capital of \$20,000,000. It operates about six hundred stores in Philadelphia, and about an equal number outside the city. It does a business of about \$60,000,000 a year, none of which goes thru the hands of the wholesalers.

A few months after this merger was announced, another chain system entered the city, The Atlantic and Pacific Tea Company.

A second factor making inroads upon the wholesalers' business is the practice of some manufacturers of selling directly to retailers who can give large orders. A few have tried the plan of selling to all retailers directly, but a larger number, apparently, are following the policy of selling to retailers who can take large quantities. The representatives of large downtown retail grocery stores have stated that they buy many things, including, among others, breakfast foods,

canned goods, and fancy goods, directly from the manufacturers.

Allied to this practice is the custom of some manufacturers of giving the reduced quantity prices to all who buy in quantity, whether or not they are legitimate wholesalers. The large retailers and wholesalers agree in stating that certain manufacturers sell directly to large hotels, chain restaurant companies, steamship lines, and other large purchasers, at the same terms as they give to wholesalers.

A fourth way in which trade is being diverted from the wholesale grocer is thru the operation of certain mail order and premium firms. These either carry on a mail order business in certain staples, particularly tea and coffee, or distribute large quantities of these articles as premiums for coupons given with some other article, or reward for sales by persons not regularly employed as salesmen. The Jewell Tea Company represents the first type. It carries on a considerable business in the sale of tea and coffee by mail. The Larkin Soap Company gives tea and coffee away as premiums, representing the second type. In an address before the National Coffee Roasters' Association Convention, at Atlantic City, on November 15, 1916, Mr. Paul M. Haserodt, of Cleveland, Ohio, stated that the average retail grocer is only selling forty to fifty per cent of his customers their coffee. The other half is being supplied by mail order houses, soap clubs, and premium companies.¹ This estimate is considered rather high by those familiar with Philadelphia conditions, but the latter agree that this trade is curtailed by the agencies described.

A fifth agency which was developing into a competitor of the wholesale grocer was the big meat packer. The Report of the Federal Trade Commission on the meat packing industry revealed the fact that the packing interests were operating a wholesale grocery business. It stated "Their branch houses are not only stations for the distribution of meat and poultry, but take on the character of wholesale grocery stores, dealers

¹ Grocers' Review, January 1917, p. 723.

in various kinds of produce, and jobbers to special lines of trade.”² “Recently, the big packers began dealing in various staple groceries and vegetables, such as rice, sugar, potatoes, beans, and coffee, and increased their sales at such a rate that in certain lines they have become dominant factors.”³ The wholesale grocers charged that the packers had an unfair advantage over them in the handling of food products from the standpoint of transportation. They had their private cars, which were moved by the railroads as express or “red ball” freight, while the wholesale grocer was getting his shipments in regular freight, with its delays. Furthermore, the packers were able to combine shipments of various commodities and thus save in freight actually paid.⁴

In December, 1919, it was announced that, as a result of an investigation of these charges by a federal grand jury, the packers had entered into an agreement with the Department of Justice to withdraw from those lines of business not directly connected with the packing industry or animal products. Since that time, the packers have sold out certain of their “sideline” interests, and the formation of new corporations to take over certain of their other lines have been announced, as for example the formation of the Armour Leather Company. It remains to be seen how effective these new arrangements will be in removing the trade in other food products from the control of the packing interests, and stopping the competition of which the wholesale grocers have been complaining.

Finally in this list of developments which are threatening the position of the wholesale grocer, we have the co-operative associations of retailers already mentioned. The two outstanding examples of such associations in Philadelphia are the Girard Grocery Company and the Frankford Grocery Company. These are wholesale grocery houses organized, owned and controlled by associations of retail grocers. A brief sketch of the history of these two companies will illustrate

² Report of the Federal Trade Commission on the Meat-Packing Industry, Summary and Part I, p. 90.

³ Ibid. p. 36.

⁴ Ibid. pp. 40-41.

their methods and throw light on the problem which they present to the wholesaler.

The Girard Grocery Company was incorporated as a co-operative wholesale grocery firm in January, 1908, by members of the Retail Grocers' Association of Philadelphia. It was the outgrowth of a previous struggle between the retailers, and the wholesalers and manufacturers. In 1892, some of the members of the Retail Grocers' Association organized a Buyers' Exchange for co-operative purchasing. In 1899, this Exchange was purchased by the association, and its advantages extended to all members. It was capitalized in 1903. It purchased in large quantities directly from the manufacturers, giving its members the advantages of the wholesalers' profit and expenses which were thus saved. By this time, the retailers were feeling keenly the competition of the chain store systems, and felt that the one salvation of the independent retailer was this organization which enabled him to secure his supplies at somewhat lower prices. The success of the Exchange aroused the hostility of the regular wholesalers. They appealed to the manufacturers to refuse to sell directly to it at wholesale prices, alleging that it was not a legitimate wholesale organization. Some manufacturers did adopt such a policy, and in return, the association pledged its members to "place no orders for specialties or new goods unless the same be billed thru the Retail Grocers' Association." The solution of the difficulty, from the standpoint of the retailers, was found in the sale of the Buyers' Exchange to the separately incorporated Girard Grocery Company. As this was a distinct organization regularly incorporated to do a wholesale grocery business, the manufacturers now had no pretext for refusing to sell to it.⁴

The Girard Grocery Company, while organized as a wholesale grocery house, has, since its inception, followed a policy which distinctly differentiates it from the independent wholesaler. The stock of the company is sold only to members of the Retail Grocers' Association. Not all members are stock-

⁴ E. M. Patterson: *Co-operation Among Retail Grocers in Philadelphia*, in the *American Economic Review*, Vol. V, No. 2 (June, 1915), pp. 289-290.

holders, but all stockholders are members. It will sell to any purchaser, but it has never given extended credit. Its rule has always been that all purchases must be paid for on the following Monday. No person, member or otherwise, can buy anything until his bills for the preceding week have been settled in full. It employs no salesmen. It will make no free deliveries of goods. The purchaser must come for them with his own team or truck, or pay a charge of one per cent for delivery. In the original plan, every member of the Retail Grocers' Association was required to subscribe to two shares of stock in the Girard Grocery Company, at one hundred dollars a share. Under this arrangement, every member of the association was a stockholder. In 1915, an energetic campaign was carried on to increase the membership of the association. With this end in view, the requirement for the purchase of stock was revoked. Retail grocers were admitted to membership and to the privileges of the Girard Grocery Company without putting in any capital. On approved credit, a member who had no capital in the company could have the regular terms of payment on the following Monday for his purchases of the preceding week. In October, 1917, because of war conditions, the association stopped taking in new members. In June, 1918, new members were again admitted. At present, the credit arrangements are again more strict. No purchaser can receive credit even until the Monday following his purchases, unless he has stock in the company, or money in the savings fund. The savings fund pays six per cent interest per annum, and the money can be withdrawn at two weeks' notice. New members are now required to deposit a sum of money in the fund. It has proved, according to the officers of the association, much less objectionable to prospective members to put their money in a savings fund from which it can be drawn on two weeks' notice than to subscribe to the stock of a corporation. The officers of the company state that no distinction is made in any way in regard to prices, discounts, or terms of credit between the customers who own stock and those who do not. Both have the benefit of the low

prices at which the company sells. The only additional advantage which stockholders receive is the payment of dividends upon their stock. In 1915, when the membership campaign was inaugurated, the association had four hundred and fifty-three members out of about 6000 retail grocery stores in the city. When it stopped taking in new members in 1917, it had 1758. During the war, its membership fell to 1510. On June 30, 1918, it resumed the admission of new members, and in the year following, gained one hundred and eleven members so that on June 30, 1919, its total membership was 1621. Its membership is not confined to grocers in Philadelphia for it includes many in the suburbs around the city, and some from outlying points, but the officers estimate that these do not amount to more than one hundred and fifty.

From 1910 to 1915, inclusive, the Girard Grocery Company paid dividends on its stock at the rate of five per cent per year. In 1916, it paid eight per cent; in 1917, 1918, and 1919, ten per cent each year. In addition, in 1916 and again in 1918, it paid a hundred per cent dividend in new stock. Thus, since 1909, it has paid a total dividend of 270 per cent.⁵

The balance sheet and income account for the year ending June 30, 1919, are appended to this chapter.

The Frankford Grocery Company is a similar organization, with a similar history. In 1893, The Frankford Grocers' Exchange was organized, with twelve members, for co-operative buying from the manufacturers. In 1898, this buying exchange merged with the Frankford Grocers' Association, a trade organization of retail grocers. In 1902, the Association was incorporated, and in 1908, it promoted and formed, as a separate corporation, the Frankford Grocery Company. On broad lines, the policy of the Frankford Grocery Company is similar to that of the Girard, altho differing in detail. Like the Girard, it requires that all purchases shall be paid for on the following Monday, and no one who has not paid can receive any further credit. It further protects itself by requiring that before a member can be allowed even this limited credit, he

⁵ Grocers' Review, August 1919, pp. 388-394.

must invest in the company's stock, or have a sum on deposit in one of two funds maintained by the company, the three per cent vacation fund, or the five per cent savings fund. The former is for sums of less than fifty dollars, the latter for larger sums. Withdrawal from either is upon two weeks' notice. A purchaser can receive credit only to the total amount of money he has invested in stock and on deposit.

The Frankford Grocery Company now makes free deliveries, but it gives purchasers who haul their own goods from its warehouse a discount of one per cent on their orders. Furthermore, it has a regular schedule of deliveries in various sections. Each section receives one delivery a week, on the scheduled day. These are only pavement deliveries. The drivers for the company are instructed not to put goods in the cellars or stores of purchasers. Members are expected to restrict their orders to one a week, ordering at one time all they will need during the week. A charge of twenty-five cents is made for each extra order, and the company will not deliver it.

The stock of the Frankford Grocery Company pays eight per cent dividends per year. As with the Girard, not all members of the Frankford Grocers' Association are stockholders in the company, but all stockholders are members of the association. The association has about eight hundred members. The secretary estimates that ninety per cent of these are within the limits of the city. Thus these two co-operative associations, with their wholesale companies, have about 2200 of the retail grocers of the city as members. These 2200 seem to include the most successful and progressive retail grocers in the city. The large down-town fancy grocery stores are members of the Retail Grocers' Association and customers of the Girard Grocery Company.

During the year ending June 30, 1919, the sales of the Girard Grocery Company amounted to \$6,053,417.65;⁶ and during the fiscal year ending August 31, 1919, those of the Frankford Grocery Company amounted to \$3,627,509.36 so that the two companies together did a business of well over nine

⁶ Grocers' Review, August 1919, p. 388.

and a half million dollars. They occupy two of the largest grocery warehouses in the city, each a thoroly modern, concrete building, with direct railroad connection.

Of the five developments which are eating into the position of the wholesale grocers in the Philadelphia district, the wholesalers themselves seem to be most exercised over the growth of the chain stores and these co-operative associations. They, as a rule, will not admit that their business has been injured. They state that no wholesalers have retired from the field, or been forced to give up the business. They allege that their businesses are growing rapidly. Yet there is considerable evidence that they have felt the pressure of the competition of the chain stores and associations, and have modified their own methods of doing business, in some cases, as a result of that competition.

- APPENDIX TO CHAPTER II

BALANCE SHEET AND INCOME ACCOUNT OF THE GIRARD GROCERY COMPANY,
YEAR ENDING JUNE 30, 1919⁷

RECEIPTS

Capital account.....	\$325,700.00
Capital account installment.....	48,486.30

 374,186.30

Loans

Girard Groc. Co. No. 2, account.....	\$111,660.00
Girard Groc. Co. No. 3, account.....	27,300.00

138,960.00

Bank loans.....	1,155,000.00
Bank loans, brokers.....	150,000.00

 1,305,000.00

Fixtures.....	36.50
Liberty Bonds.....	53,650.00
Thrift Stamps.....	2,106.93
Paid in surplus.....	99,350.00
Equitable Warehousing Co. dividend.....	882.90
Bourse dividend.....	4.50
Interest on Liberty Bonds.....	1,632.37
Collateral.....	425.00

 1,976,234.50

Merchandise.....	5,865,820.43
Expense, Girard Groc. Co.....	7,241.82
Expense, Retail Grocers' Assn.....	25,944.76

 7,889,242.37
⁷ Grocers' Review, August 1919, pp. 389-400.

DISBURSEMENTS

Capital.....		168,600.00
Capital, installment.....		23,276.61
		<hr/>
		191,876.61
Loans		
Retail Groc. Assn.....		19,550.00
Girard Groc. Co. No. 1, account		10,915.00
Girard Groc. Co. No. 2, account.....		53,350.00
Girard Groc. Co. No. 3, account.....		1,800.00
Trade notes.....		47,400.00
Bank loans.....		1,172,500.00
Bank loans.....		150,000.00
		<hr/>
		1,455,515.00
Surplus, Cash dividend.....		16,650.00
Income and war excess profit tax No. 1, account	51,322.68	
Income and war excess profit tax No. 2, account	26,588.73	
Federal Capital stock tax.....	215.50	
Penn. State tax.....	1,251.60	
Penn. State tax $\frac{1}{3}$ of 1% increased capital.....	998.34	
Mercantile.....	2,883.10	
	<hr/>	
		83,259.95
Fixtures.....	5,767.73	
Liberty Bonds Girard Groc. Co.....	71,500.00	
Liberty Bonds Girard Groc. Co.....	53,650.00	
Thrift Stamps.....	2,106.93	
Equitable Warehousing Co	20.00	
Collateral.....	1,617.93	
	<hr/>	
		134,662.59
Merchandise.....		5,710,026.51
Expense, Girard Groc. Co.....		221,876.90
Expense, Retail Grocers' Assn.....		16,045.34
		<hr/>
		\$7,829,912.90
Balance.....		59,329.47
		<hr/>
		\$7,889,242.37

ITEMIZED ASSETS		
Balance		\$59,329.47
Fixtures.....	\$11,260.25	
Liberty Bonds.....	81,500.00	
Equitable Warehousing Co.....	7,982.00	
Ground rent.....	1,500.00	
Bourse stock.....	1.00	
Collateral.....	1,192.93	
	<hr/>	
		\$103,436.18
Accounts Receivable		
Ledger 1.....	72,326.66	
Ledger 2.....	46,482.07	
Ledger 3.....	39,367.58	
Ledger 4.....	37,373.41	
Liberty Bonds, amount due by members.....	16,718.00	
Thrift Stamps.....	627.69	
Grocers' Review.....	990.72	
	<hr/>	
		213,886.13
		<hr/>
		317,322.31
Less Libby error.....	5,191.42	
Less Collateral.....	250.00	
Less suspense.....	30.10	
	<hr/>	
		5,471.52
		<hr/>
Merchandise.....		311,850.70
		1,009,095.96
		<hr/>
		\$1,380,276.22

ITEMIZED LIABILITIES

Capital.....	\$490,100.00	
Installment capital.....	101,599.64	\$591,699.64
Retail Grocers Assn.....	\$81,584.00	
Girard Groc. Co. No. 1 account....	26,232.00	
Girard Groc. Co. No. 2 account....	99,585.00	
Girard Groc. Co. No. 3 account....	27,300.00	234,701.00
<hr/>		
Corn Exchange Bank.....	75,000.00	
Union National Bank.....	75,000.00	150,000.00
<hr/>		
Accounts payable		384,701.00
Cash book, page 243.....	\$129,217.11	
Ledger.....	51,915.79	
Penn. Fire Ins. Co.....	57.67	
Retailers' Mutual Fire.....	139.29	
New York Plate Glass.....	2.92	
<hr/>		
Mutual Defense.....		\$181,332.78
		139.00
Surplus.....	8,273.08	
Surplus paid in.....	99,350.00	
Reserve.....	9,976.00	
<hr/>		
Profit.....		117,599.08
		104,794.72
<hr/>		
		\$1,380,276.22

CHAPTER III

EFFORTS OF THE WHOLESALERS TO MEET THE COMPETITION OF THE CO-OPERATIVE ASSOCIATIONS

1. *Early Efforts*

The efforts of the wholesalers to meet the situation have taken three main lines. The earliest of these has already been mentioned. It was the attempt to persuade the manufacturers not to sell at wholesale rates to any but legitimate wholesalers. This, as has been stated, met with some success in the days of the buying exchanges, before the Girard Grocery Company was organized. Several companies, among them the Natural Food Company, The Toasted Corn Flake Company, Proctor and Gamble, and the Diamond Match Company, refused to sell to the exchanges.¹ Since the organization of the Girard Company, a few manufacturers have refused at times to sell to it. For some time, the Corn Products Company refused, but in April 1918, it was announced "By the gracious permission of the Corn Products Company, we are again able to list Karo."² The movements to be noted under the other methods which the wholesalers have tried have occasionally involved a refusal on the part of a manufacturer to sell to the associations, or an agreement to give the wholesalers lower prices than the associations. As a whole, however, the attempts of the wholesalers to prevent the Girard and Frankford companies from securing products at lowest prices have not been successful. Where they have succeeded, they have applied to new goods, for which a demand was just developing, usually in competition with older and well established lines.

¹ E. M. Patterson: Co-operation among Retail Grocers in Philadelphia, in the American Economic Review, Supplement, Vol. V, Number 2 (June 1915), p. 290.

² Grocers' Review, April 1918, p. 131.

2. *The Wholesale Grocers' Sales Company*

The second policy which the wholesalers have adopted in their attempts to meet the pressure of the competition of the chain stores and associations is the formation of the Wholesale Grocers' Sales Company. This is a corporation formed by the wholesale grocers of Philadelphia to combine their purchases from the manufacturers. It was organized in November 1916, after the successful campaign of the Girard Grocery Company had resulted in a large increase of membership. Its officers state that it was not a direct result of that growth in the co-operative movement among the retailers, altho one admitted "Perhaps that did waken us up a little." However, the date of its development appears to be significant. Apparently, whether as a result of the campaign of the Girard, or not, the wholesalers were feeling a pressure which urged them to adopt new methods for carrying on their business. It is also evident that, in many lines, the purchases of the individual wholesalers were not large enough to secure for them the most favorable terms from the manufacturers and for freight shipments.

There are in Philadelphia in the neighborhood of seventy firms carrying on a wholesale grocery business. This includes all doing any type of such business. Many of these are comparatively small firms, others are retail grocers, with a wholesale department. The Wholesale Grocers' Sales Company is composed of twenty-four of the larger wholesale houses. It does not, however, include all, even of the firms carrying on large-sized businesses, in the city. It is a corporation capitalized at \$20,000, of which \$16,000 is paid up. All of the stock is held by the twenty-four wholesale grocer members.

Its chief object is to serve as a buying agency, thru which the wholesalers combine their purchases to secure carload lots. The corporation has no warehouse, and does not handle the goods itself. It handles the orders and accounts and payments for the goods, but upon the arrival of a carload ordered by it, it notifies the individual members. These haul the goods to their own warehouses. The members are charged just what

the Sales Company pays for the goods, plus one per cent to cover the costs of handling the goods. Its policy is to require its members to pay within ten days from the receipt of a shipment, while it itself has thirty days in which to pay the manufacturers. The company, as such, is not operated for profit, and pays no dividends. The members receive their dividends or profits in the form of the reduced prices and freight savings on their goods.

The savings from this plan are two-fold. In the first place, many manufacturers have lower rates on carload lots than on smaller quantities. Thus, thru combining their purchases into such lots, the wholesalers are able to secure small quantities of goods at the most favorable prices for large shipments. In the second place, the freights on such shipments are smaller than they would be on the same quantity of goods sent as twenty-four separate shipments. From both of these standpoints, the plan of the Sales Company seems to represent a sound and economical method of purchasing. The members estimate that they save, on the average, about five per cent on their purchases made thru the company.

It will be noticed that this plan represents a new tendency to separate the wholesaling and jobbing processes along the lines described earlier. The Wholesale Grocers' Sales Company takes the place of the old type of wholesaler, bringing the goods in from outside, while the wholesale grocers as individuals become simply jobbers in the original sense, selling to the retail trade.

Further, it is an adoption by the wholesalers of very much the same device which the retailers are using so successfully in The Girard and Frankford Companies. In both plans, a number of merchants are combining their purchases in a co-operative corporation owned by them and their associates, for the purpose of securing goods at the lowest possible prices. Both plans require prompt payment from purchasers. Both reduce the services which they perform to the minimum, and carry on their business with the utmost possible simplicity of organization.

On the other hand, there are certain differences in the plans of the retailers and those of the wholesalers. Perhaps the most fundamental is the fact that the Girard and Frankford Companies seek to anticipate the needs of the retailers, and to supply the trade with goods as they are required: while the Wholesale Grocers' Sales Company makes no effort to do this. It only orders goods which are already disposed of to its individual members. Each week, the members hold a meeting, and at these meetings, their needs are discussed. Before a shipment of goods is ordered, it is known that it will all be taken immediately upon arrival by the various members, and the share which each will take is decided. The purchases of the co-operative association are made in advance of sales to retailers or orders from them. The Girard and Frankford are independent businesses, buying and selling for their own accounts, while the Wholesale Grocers' Sales Company is little more than a purchasing agent for a group of grocers, executing their orders for them. In this it resembles the buying exchanges which were the forerunners of the Girard and Frankford. As a result, we have the different method of handling the goods, the Girard and Frankford having their own warehouses, in which shipments are stored and drawn upon as needed, while the Sales Company has no warehouse and sends its shipments directly to the warehouses of members.

The cause for these differences lies in the differing character and size of the membership of the two types of organizations. The Sales Company consists of a small group of men, closely co-operating. The Girard and Frankford Companies include large groups of widely scattered members. Where it is perfectly possible for representatives of twenty-four grocery firms to come together and work out combination orders, and the percentages which they will take, it would be an impossibility for seven hundred or more to do so. This was the plan actually followed by the retailers' exchanges in the days when they had but few members. As they grew, it became necessary to have a central warehouse, and to buy goods in anticipation of the wants of the members.

From this difference springs another, the varying policy in regard to dividends. Being organized as regular corporations, buying and selling, the co-operative companies naturally pay dividends to the stockholders. With the small membership, the method of purchasing which insures the advantages of the company to all in equal measure, and the fact that all who deal with it are stockholders, the Sales Company has no necessity for the payment of dividends. Its advantages are equitably divided thru the lower prices which it secures.

Ostensibly, this is all that the Wholesale Grocers' Sales Company is—an organization for the combining of orders into large quantities to secure favorable terms. As a matter of fact, it seems to amount to something somewhat more significant than this. The members co-operate, not only in the purchasing of supplies, but also in other ways. At their weekly meetings, various other problems which they are facing are discussed. Among these problems, the prices to be charged figure. One of the officers of the company stated, "We discuss prices, as far as we legally can. Of course, we cannot make binding agreements fixing prices, but one man will say what he thinks is a fair price to charge for a certain article, and the others will say what they think about it, so we will know pretty well how we feel about it, and what the various grocers are going to do."

Another way in which the members of the Sales Company co-operated was in selling campaigns on certain special articles. These were used to introduce to the Philadelphia market new goods, which had not been sold to any extent there before. The twenty-four wholesalers had, in the Philadelphia district, 254 salesmen. The plan of the selling campaigns was to have each one of these salesmen make a particular effort to sell the given commodity to the retailers, during a given period. Thru the concentrated efforts of the salesmen of the co-operating wholesalers, large quantities of the article would be sold. These large quantities would be purchased thru the Wholesale Grocers' Sales Company. The wholesalers maintain that the results of such united campaigns were remarkably successful,

in many cases. A newspaper account of one of them states, that in the promotion of the sales of "a certain trade-marked cereal," "Two years ago the manufacturer, on his own efforts, sold five cars. Last year, dealing thru the association, the sales were twenty-four cars. Since September first, twenty-five more cars have been taken, and in addition, there are fifteen more on order. Buying in such quantities has meant a startling saving in freight charges, as well as a discount for promotion work, which is costing the association practically nothing, by the way."³ The association here referred to is the Wholesale Grocers' Sales Company.

In August, 1917, another plan was tried. This was to give certain retailers who were accustomed to purchase a good proportion of their supplies from the members of the Sales Company, specially low prices on certain staple lines of goods. The retailers were then to sell these goods to the public at special or "cut" prices. Here again the grocers composing the Sales Company were working together. At their conferences, they would decide on what articles to give special prices during a given time, and all would co-operate in selling to the retailers at the agreed low price during that time. The object of this, of course, was to enable the retailers to meet the bargains offered by the chain stores, by themselves offering cut-price specials. Very likely, it was also hoped that it would enable the grocers buying from the wholesalers to offer bargains which the Girard and Frankford could not enable the retailers to give. The result of this might be expected to be to weaken the allegiance of the retailers to those two organizations, and win from them favor for the wholesalers.

3. *The Community Stores Company*

Out of these last two activities of the Wholesale Grocers' Sales Company grew the third of the policies which the wholesalers have tried in their attempts to meet the competition of the chain stores and retailers' associations. This was the

³ The Philadelphia Public Ledger, Oct. 11, 1917, p. 15. "Grocers Unite to Beat Chain Store Methods."

Community Stores Company. It will be noticed that the two plans of the Wholesale Grocers' Sales Company described above had no provision for any wide appeal to the public, calling attention to the stores at which the advertised or the specially priced goods could be obtained. The salesmen of the wholesalers might persuade the retailers to purchase "a certain trade-marked cereal" and that cereal would, at the same time be advertised in the Philadelphia papers, but the public who read and responded to the advertising might inquire for it at chain stores, or grocery stores not carrying it. The advertising did not link the new product up with the retail stores which were handling it. In the same way, the cut-price specials could not be very effectively advertised. To fill this gap in the plan, apparently, the Community Stores Company was organized.

The Community Stores Company was a corporation formed by the Wholesale Grocers' Sales Company. It was capitalized at \$5000, and the stock was all subscribed by the twenty-four members of the Sales Company. As stockholders, they elected the officers, and six directors of the company. The "Community Stores," however, were retail stores. A retailer became a member by the payment of a fee of ten dollars per year. His membership gave him no voice in the management of the company, or in the election of officers or directors. In return for his fee, the retailer received a large yellow decalcomania sign, which he displayed upon his window, saying "Community Store We Serve You Save" and he was entitled to the special prices on certain lines of goods which the wholesalers gave in accordance with the plan already described, or to the handling of the advertised brands.

The Community Stores Company was organized in the fall of 1917. At the time, it secured considerable publicity in the newspapers, and many promises and predictions as to its achievements were made. It was announced that it would secure the greatest co-operation of effort without in any way interfering with the independence of co-operating stores and firms. It was to "bring to bear the economies of the chain

store system coupled with the incentive to real service which exists where the store is under the management of the owner rather than a salaried superintendent; in that its aim is to present to the consumer every advantage in price without the disadvantage of non-delivery and no telephone service." It was to promote the interests of the consumer by giving him lower prices. It was to promote that of the retailer by increasing his turnover, by drawing customers to his stores thru the cut-price specials, and by linking up his store with a vigorous advertising campaign in the papers. It was to promote the interests of the manufacturers by giving them the united efforts of the two hundred and fifty-four salesmen, visiting the retailers of the city each week, for the promotion of the sales of their products. It was to benefit the wholesalers by increasing their sales volume and buying power. It was to assist the Food Administration by having the salesmen act as messengers, carrying the messages of the Administration to the retailers each week by direct personal contact. It was prophesied that it would result "in a country-wide revolution in distributing methods."⁴

Both the Girard Grocery Company and the Frankford Grocery Company were invited to join the movement, but refused.

The methods which the Community Stores Company used to accomplish these aims were substantially the two described in connection with the Sales Company—giving low prices on certain specials, and carrying on special selling drives on certain new brands. But now these were widely advertised in the newspapers, with the statement in prominent lettering "These goods can be purchased at Community Stores." These advertisements sought to establish the Community Store as a trade-mark in the minds of the public. The services given by Community Stores were emphasized at a time when the chain stores were abolishing free deliveries and having the telephones removed from their stores. The public was urged to patronize stores showing the Community sign. The specials,

⁴ The Philadelphia Public Ledger, op. cit.

on which cut prices were given, were widely announced. The cost of this advertising, it is stated by those connected with the Community Stores Company, was borne by the wholesalers, and by the manufacturers of the advertised commodities. The ten dollars dues collected from the retail members did not come anywhere near meeting the expenses.

Each week, one or more specials at cut prices would be advertised. The wholesalers sold these goods to the retailers at cost, or in some cases, at an actual loss. The retailers were then expected to sell them to the public at the price which they paid. Meanwhile, the special reductions were advertised, with the slogan, "Can be purchased at Community Stores." The special price would hold good for one week only, and the attempt was made to see that the retailers only received enough to meet their demands for that one week. Some of the articles offered at special prices under this plan were Babbit's Soap, sold by the Community Stores for five cents a cake, when the regular price was seven cents; Lux, sold for ten cents, regular price, twelve; Campbell's soups, sold at three for twenty-five cents, regular price twelve cents a can; Snow Boy, sold at two for nine cents, regular price, six cents a package; Gulden's Mustard, sold at twelve cents, regular price, fifteen. In some cases, because of the large quantities purchased, the manufacturers allowed the Sales Company special rates on these goods. In others, they were actually sold at a loss to the wholesalers. It is stated that such was the case with the Campbell's soups special. The wholesalers paid \$1.05 a dozen cans for it, sold it to the retailers for \$1.00, while the retailer sold it at the same price.

Of course, these prices, even when they did not involve an actual reduction, as in this case, were handled without covering their share of the overhead expenses. The wholesalers maintain that no effort was consciously made to make up this loss—that they relied upon the increased volume of their sales along other lines to make it up. Some of the retailers who were members of the Community Stores do not agree with this. They feel that the wholesalers tried to cover their losses by

putting up the price of other goods. The wholesalers also officially stated that a retailer would not be expected to purchase other goods from them because he joined the Community Stores, and took their specials. One of the statements issued during the publicity campaign by the officers of the Community Stores Company says, "The retail dealer maintains complete independence. He is not obliged in any way to purchase his other goods from the wholesalers who are members of the Community Stores. In fact, their constant advice to the retailer is, Buy where you can get the best and cheapest."⁵ The writer has been informed by some of the retailers that they felt that the attitude of the wholesale salesmen was that if you took the specials offered by the Community Stores Company, you were under an obligation in fair dealing to purchase other goods from the wholesalers who were backing it.

The second line of activity of the Community Stores Company, that of concerted efforts to sell certain brands of goods, was worked out in co-operation with the manufacturers of such goods. The wholesalers would point out to a manufacturer considering the exploitation of the Philadelphia field that the conditions there were highly complicated. It might be admitted that the Girard and Frankford Companies and the chain stores controlled a good sized section of the trade. But it would be pointed out that these agencies, and especially, the Girard and Frankford, have no salesmen, and therefore, could not push his goods very effectively. If he sought to distribute his goods thru them, he would in all probability have to employ a force of salesmen of his own to introduce his goods to the retail trade. On the other hand, the regular wholesalers have a complete force of salesmen, who will push the goods of manufacturers who distribute thru them. To that extent they do more service for the manufacturer than do the Girard and Frankford. Therefore, the wholesalers would argue, they should be given the sole handling of the goods, or receive lower discounts than the co-operative associations. If this

⁵ The Philadelphia Public Ledger, Mar. 11, 1918, p. 11, Independent Grocers Boost Their Business.

appeal convinced the manufacturer, he entered into a special arrangement with the Wholesale Grocers' Sales Company. These agreements usually seem to have had two important provisions. The Sales Company was made the sole selling agent for the product in the Philadelphia territory, and was given a special discount. In return, the wholesalers comprising the Sales Company were to take carload or train load lots of the goods, and carry on a concerted campaign thru their salesmen to sell the goods to the retailers. A feature of this campaign would be advertising of the product on the Community Store pages in the daily press. This advertising was usually paid for by the manufacturer. The retailers, on their part, were expected to display the currently advertised goods prominently on their shelves and counters and in their windows, and to make special efforts to sell them to their customers.

The objects which the wholesalers hoped to promote thru this plan appear to have been four in number. They expected to attract customers to the Community Stores thru their advertising campaign, special prices, and new lines. This would increase the volume of sales passing thru the hands of the wholesalers. It would bring the retailers into closer dependence upon them. At the same time, it would secure for the wholesaler the support of manufacturers. In these ways, it would strengthen them in their struggle with the chain stores and co-operative associations.

The wholesalers claim for this plan phenomenal increases in the sales of certain goods. For instance, they state that in five years, 450 cases of Holland Rusks were sold in the city, an average of 90 a year. In nine months under the Community Stores arrangement, 5000 cases were sold. One of the goods which was introduced to the Philadelphia market in this way was Miss Princine Baking Powder. Seven carloads were taken by the Wholesale Grocers' Sales Company at one time, and disposed of to retailers thru the Community Stores Company. When asked if the increases in sales in such commodities as these were accompanied by falling off of the sales of other competing lines, as for instance in other lines of

baking powder, the officers of the Sales Company replied, "Well, I suppose in some cases, they probably were, but in others, like Holland Rusks, they were not. On the other hand, the chain stores and other stores which did not carry Miss Princine were met by constant demands for it."

There are two significant facts to be noted in regard to this plan. In the first place, it was applied only to special goods which were not widely known, and were being introduced. In the second place, it was based, in its appeal to the manufacturers for the special rates or sole agency, upon the fact that the Girard and Frankford Companies have no regular salesmen. This, from the standpoint of the introduction of new goods, is admittedly a weakness in the co-operative associations. To meet this weakness in some measure, both the Girard and Frankford have a small force of special salesmen. In the case of the Frankford, the number is four. Upon the payment of twenty-five dollars a week per man, a manufacturer can have the services of these salesmen to introduce his goods to the members of the company. Each salesman handles four articles at a time, making a hundred dollars a week received by the company for the services of each man. Thru this arrangement, the manufacturer secures the services of expert salesmen, thoroly acquainted with the local retailers, coming to the latter as the representatives of their own association and therefore well received by them, and at a comparatively low cost. At the same time, he is paying extra for services which the wholesalers give him free.

The wholesalers argue that time after time, they take up a new article, push it vigorously thru their salesmen, establish a market for it: then, when a good steady demand for it has been created thru their efforts, the co-operative associations begin to handle it, and sell it at lower prices than can the regular wholesalers, with their higher expenses. The wholesalers have done all the work, and then the Girard and Frankford get the profitable end of the trade.

In addition to these activities, the wholesalers planned to have the Community Stores Company carry on certain

advisory and educational activities for the benefit of the retailers. It was to give them suggestions as to store management and system, establish a collection agency, and furnish information in regard to trade conditions, the rulings of the Food Administration, and so forth. It does not appear to have actually developed this phase of the plan to any extent.

The Community Stores plan as described above was in operation for about a year. On December 29, 1918, the newspapers announced that the Community Stores Company had gone out of existence. With the close of the year, it wound up its affairs, gave up its offices, and ceased its activities. Of course, the individual retail grocers who had formed the "membership" were still in existence, still doing business as usual. The Wholesale Grocers' Sales Company likewise still continues its activities. But the Community Stores as a brand on the windows of the retailers has no longer any significance, and the advertising campaigns are no longer carried on. The revolution in distributing methods promised at the time of formation had not occurred. Even with due allowance for the vivid coloring of its prospects by publicity managers, it had not accomplished, apparently, what its promoters had expected of it. It had enlisted 1600 of the retail grocers of the city as members, including many who were members of the Philadelphia or Frankford Associations, and, presumably, bought much of their material from the Girard or Frankford. It had phenomenally increased the sales of various articles. What, then, were the causes for its demise?

An inquiry conducted among the officers and wholesale members of the company, the officers of the Girard and Frankford, and a comparatively small number of the retailers connected with the movement, has elicited a number of opinions as to the cause of its abandonment. It will be noticed that we do not say "failure." The officers of the company, who are also the officers of the Sales Company, say that it was not a failure. In a certain sense, they argue, it was very successful. In another phase they are willing to admit it did not succeed. That lack of success they attribute to five difficulties which

the plan encountered. In the first place, they state that much difficulty was found in making up the cut-price specials, because of the varied nature of the trade in the city. The Community Stores were located in all parts of the city, in neighborhoods of very different characters. Some were in exclusive residential districts. Others were in middle class districts, or in districts where they catered to lower income groups. Some were in the various foreign districts—Jewish, Polish, Italian, Negro, and those of other nationalities. The wants, needs, and tastes of these groups differ very greatly. Thus, a special that would make a strong appeal to the customers in one section of the city would make no appeal whatever to those of some other neighborhoods. Retailers in one part of the city would find their trade much increased by a low priced article, while those elsewhere would find the same article, even at the low price, a drug on the market. As much of the effectiveness of the plan depended upon the advertising, which in the nature of the case, had to be the same thruout the city at one time, this was a serious handicap. They could not very well afford to run each week a list of several cut-price articles, which would meet the tastes of each group of the population. Running and advertising only one, in many cases, made a very limited appeal.

In the second place, the officers of the company state that much difficulty was experienced in securing sufficient quantities of goods, both for the specially priced articles, and for the brands which were being definitely pushed. This was due to transportation conditions. At times, they say, it was almost impossible to get goods in sufficient quantities to make up the specials for the next weeks. They were reduced to the device of finding commodities of which the members of the Sales Company already had large supplies on hand in their warehouses, and from these making up specials. This, of course, meant that they had to bear all the burden of the low price themselves, or else could not offer very substantial reductions, for they had depended upon saving in transporta-

tion charges on large shipments, and low prices on quantity from the manufacturers to assist them in giving low prices.

A third reason assigned by the wholesalers for the lack of success of the plan is the opposition of the Girard and Frankford, and the officers of the associations. As has been stated, these two corporations were invited to join the Community Stores plan, but refused. The officers of the Sales Company state that the Girard and Frankford seemed to feel that the object of the movement was to discredit these co-operative companies. The wholesalers stoutly aver that they had not the least idea of any such intention. They state that the officers of the associations tried to prevent their members from joining the Community Stores, and that in order to do this they told the retailers that the real purpose of the plan was to break up the associations and put the Girard and Frankford out of business. Then, when the wholesalers had the city to themselves again, they would put up prices on the retailers. Perhaps the officers of the two associations were not putting it just this way, but the fact that they were hostile to the Community Stores plan is amply shown by the articles published in their official magazine, the "Grocers' Review." In March, 1918, in the section devoted to the Frankford Grocers' Association, there appeared the following editorial statement:

One of the latest associations to make its bow to the retail grocer is the Community Stores Company. As we understand it, this company is formed, owned, and controlled by the Wholesale Grocers' Sales Company and their objects are as follows: To control for themselves, the wholesalers, the output of as many advertised brands as possible, so that the chain stores and jobbers not affiliated with them cannot secure or sell these articles at a price lower than themselves, thereby obtaining for themselves whatever profits they may decide upon. They propose to arrange for the retail grocer affiliated with them, a special from time to time, which the grocers will advertise and sell at manufacturer's cost, the jobbers to furnish these articles to the retailers without profit to themselves.

They also propose to furnish the grocer with store signs, a collection department, advice on system, etc. In return for this service, we understand that they expect the retail grocer to pay the sum of \$10.00 per year for membership, to publish their specials, to push the goods exclusively controlled by them, and as a natural outcome, give a certain proportion, if not all of their business to the wholesale grocers connected

with the Wholesale Grocers' Sales Company. Now where is the retailer to be materially benefited who is now a member of the Frankford Grocers' Association or the Retail Grocers' Association of Philadelphia?

Divided effort is not the basic principle of co-operation. If the various organizations, who are bidding for the retail grocers' business, succeed in getting a proportion of it, in a short time the same conditions will prevail that existed before there were any buying organizations. This is easy to understand, as for instance every dollar's worth of business taken from the Frankford Grocery Company reduces our buying power, therefore as the Frankford Grocery Company, the Girard Grocery Company, The Standard Grocery Company, the Richmond Grocery Company and the Community Stores Company, etc. have overhead expense, the more the business is divided up the more the percentage of overhead and the retail grocer pays the bill.

Economy and efficiency are the "Watch Dogs" which protect business, and we cannot see how these "Watch Dogs" can be utilized for your protection if you divide your business with every new project that comes along even though it is dressed up in its "Sunday go-to-meeting" and is pretty to look at. We strongly advise the retail grocers to study the question very thoroughly before they divide up their business under supposedly beneficial co-operative lines.⁶

A month later, they again express themselves as follows:

It has been a question as to whether our members would be helped by joining the Community Stores Co. It is an admitted fact by all connected with the grocery business, that we sell our members cheaper than service jobbers and if our members transfer a portion of their business to the Community Stores jobber and pay the price in addition to the \$10.00 membership fee, it is a question whether or not the advertising cost will not be out of all proportion to the advertising value. We believe the Community Stores Company have a good advertising plan, but here is the question:

If a grocer uses the Community Store signs, advertising specials, etc., and buys from the Frankford Grocery Company—is he a piker?

or

If he joins the Community Stores Company and uses their advertising specials, etc. isn't he in duty bound to give the Community Stores Company jobber his business? To our mind the answer is obvious.

What is your answer?

Show us a consistent middle ground.⁷

In the same issue is another less direct, but still obvious, thrust at the Community Stores Company, in an article headed "Is 100% Co-operation Worth While."

⁶ Grocers' Review, March 1918, p. 46. "What is an Association."

⁷ Grocers' Review, April 1918, p. 114. "What is the Answer."

We do not believe that any co-operative organization is founded on real co-operative principles unless the co-operators, themselves are in on the ground floor, putting up the finances where finances are needed, selecting for themselves the man or men that they wish for their executives and defining for these executives the policy by which the organization shall be run. . . . The question before your association that is being thoroughly discussed before defining our policy is "Will it pay the members of our association to be 100% association members or will it weaken the effectiveness of our association, individually and collectively, for our members to join other so-called co-operative associations, which are known to have interests antagonistic to the principles for which we stand." I cannot see but one answer to this question and that is, "If your association is worth belonging to, it is worth your individual loyalty."⁸

This hostility did not prevent many of the members of the Frankford or Philadelphia associations from joining the Community Stores, and displaying its sign. It probably tended, however, to dampen their interest and enthusiasm in the plan, and may have deterred many others from joining it at all.

A fourth reason assigned by the officers of the Wholesale Grocers' Sales Company for the giving up of the plan is that many of the wholesalers and also a good number of retailers already had more business than they could well handle under war conditions. Their working forces were depleted, they had to pay high wages, in competition with war industries, for incompetent labor, and so they were not particularly interested in a scheme which meant more goods for them to handle.

To a neutral observer, this reason seems somewhat dubious. The drafting of men into the army and the displacement of labor were well under way when the movement was launched in the early months of 1918. If the wholesale grocers were so prosperous at the end of 1918, it would seem that they must have been doing a fair amount of business at the beginning. At the beginning of the year, they were enthusiastically pushing a plan for increasing their businesses. During the summer, they were proudly telling of the great increase in the sales of

certain products brought about by the operation of the plan. By the end of the year, they were explaining that they were not particularly interested in the plan because they already had more business than they could handle. It does not seem likely that conditions changed as rapidly and completely as this would indicate. Furthermore, it seems that if the plan had been operating very successfully, the wholesalers, even tho they had at the time very heavy trade, would look forward to the time when they might not be so prosperous, and would desire to keep it alive to help them at such a time. It is, to say the least, unusual for business men to fail to be interested in a plan because it means an increase in their business.

A fifth reason given by one of the officers of the Community Stores Company is the failure of the wholesalers to co-operate effectively. Each wholesaler had, of course, his own force of salesmen. These salesmen were in active competition, visited in many cases the same retailers, trying to sell them the same goods. There was no attempt to district the city, apparently, and give one wholesaler certain exclusive territory in which he was to present the idea to the retailers, and handle the specials for them. The result was that in some cases, it was found retailers would stock up on the specially priced articles when they were offered by the wholesalers. They would buy lots of the special from two or more wholesalers, and then, after the week of special prices as advertised was over, sell the article at the regular price for some time to come, putting the big profit, which had of course, come out of the wholesalers' pockets, into their own. There appears also to have been difficulty in getting the various members to agree as to what should be offered as specials at times.

Discussion of the plan with the officers of the Girard and Frankford Companies, and some of the retailers who were in the Community Stores, elicits other explanations of why the idea was given up. Here the charge is frequently heard that, to repay themselves for the losses incurred in connection with the specials, they put up the prices on other goods. This, of course, is a charge to which the price-cutter always lays him-

self open, and one very difficult to prove positively. Whether or not the wholesalers as a group did this, or certain among them, if the retailers had a general impression that such was the policy or custom of the wholesalers, it would prejudice them against the plan. Such an impression does seem to have been current among them, and it seems to have been fostered by the associations.

The same idea, in a somewhat different form is expressed by those who say that if the retailer took the Community Stores specials and advertised brands, he was expected to give to the wholesalers a large share of his other trade, at terms not so advantageous as those offered by the Girard or Frankford. This, as we have seen, the wholesalers specifically deny. Again, whether it were true or not, if any large number of the retailers affiliated with the two associations thought that it was true, it would react to the injury of the movement.

Some of these explanations appear to be perfectly valid. Others, as has been noted, seem doubtful. Those which are valid, which represent factors really contributing to the failure of the plan, appear to rest upon certain fundamental weaknesses in the scheme as it was operated. Thus, the admitted difficulty in making out specials which would be universal in their appeal suggests a more general and basic defect in the whole plan—weakness of appeal to the general public. The opposition of the Frankford and Philadelphia associations of retailers, again, is not in itself a sufficient explanation of the lack of success. Of the some 5300 grocery stores in Philadelphia not connected with the chain systems, only 2200 belong to the two associations. This leaves the wholesalers a free field in at least 3000 cases. Yet the Community Stores Company only claims a membership of 1600, and many of these were members of the associations.⁹ The plan was apparently weak in its appeal both to the association members and to the grocers not affiliated with the associations. The failure of the wholesalers themselves to co-operate effectively

⁹ Newspaper accounts claimed for the Community Stores from 2100 to 2500 members. The above is the number given the writer by the secretary.

in carrying on the movement brings up the further question, why did they thus fail. In short, the plan was weak in its appeal to all three factors essential to its success—the consuming public, the retailers, and the wholesalers.

Its appeal to the public rested upon three main methods. It sought to draw them to Community Stores by offering temporary bargains in certain standard goods; it sought to force the public to patronize Community Stores as the only places where certain widely advertised but unfamiliar goods could be purchased; and it tried to establish in the minds of the public that the Community Store sign stood for certain standards of quality and service.

The first of these, as we have seen, met the difficulty that the tastes of different sections of the population are so diverse. It had other weaknesses. A price-cutting policy may be successful if it is carried on continuously, and applied to a large number of articles. But simply to have special prices on one or two articles each week is not a very strong drawing card, particularly when it comes into competition with stores which have built up a reputation for low prices on all lines, and which are constantly advertising large numbers of bargains. This was just the situation which the Community Stores plan was facing in the chain store competition. The one great appeal of the chain stores is low prices. They have the reputation of being much lower in their prices on all lines than the independent grocers, and of offering numerous cut-price goods. In the face of this, occasional bargains at other stores were not a great inducement to trade there permanently. Had the Community Stores been able to offer reductions on a number of goods for a considerable time, they would have stood a better chance of making an effective appeal to the public on the ground of prices.

In regard to the advertised specialties, which were controlled by the Community Stores, the wholesalers, in their publicity campaign alleged that they were selling them at lower prices because of the savings which they were making in handling and purchasing them in large quantities. The public had no

means of testing this claim, since the articles were on sale only at the Community Stores. Here again, on this second point, the appeal to the public was not very strong. The selling of new and unknown articles, even tho they are introduced by a vigorous advertising campaign, is not a very effective way of drawing custom to a store. Of course, it has probably attracted a certain number, but the experience of the retailers in general seems to be that it did not promote trade to any appreciable degree.

The attempt to establish a connection in the minds of purchasers between the Community Stores sign, and the quality and service of the stores displaying it was not more promising. There were, as we have seen, 1600 stores displaying that sign. Certainly, there must have been wide differences in the standards of these stores as to quality or service. The wholesalers had no way of compelling these stores to maintain any uniform standards. If they had made the attempt, it might have met with the difficulty which the specials met, the divergent tastes of the different sections of the city. They might, and occasionally did, give suggestions for the improvement of stores, but they had no real control over the stores, and do not appear to have tried seriously to exercise any. The individual proprietors continued to carry on business as they had been accustomed to, with their own methods. So that practically the sign was no real guarantee of quality or service. Some of the best and cleanest and most sanitary stores in the city and suburbs bore the Community sign in the window. So also did some which even the casual visitor could see fell far short in cleanliness and neatness. If some of the Community Stores gave very complete service, so did many stores not allied with the plan. If some of the stores with best reputations for quality of goods handled were in the movement, many with just as good reputations were not. Thus no one of the three bases of the appeal to the public was strongly effective.

Its appeal to the retailers rested upon two foundations, a promise of increased trade, and the offer of lower prices on certain goods. The former rested in turn upon the efficacy

of the appeal to the public. If this failed, the interest of the retailer would not be held very long. To get an absolutely fair and accurate estimate of the serviceableness of the movement to the retailers, it would be necessary to interview a large proportion, if not all, of the 1600 members of the Community Stores. The writer has not done this. He has interviewed a limited number of them, in scattered parts of the city. The unanimous opinion of those whom he has asked about the Community Stores plan is that they could not see that they reaped any benefit from it. Those in well-to-do districts, or serving well-to-do trade, say that the specially priced goods made little if any appeal to their customers. Grocers of this type do not seem to be worried about chain store competition. They say that their customers want quality in their goods, and service. The people who are interested in bargains go to the chain stores. To grocers serving trade like this, cut-price specials are not of much assistance in drawing trade.

Grocers serving less well-to-do trade, who in some cases confess to feeling the chain stores competition, agree in their verdict with the above statements. They say that the specials in many cases did not make any appeal. One, in commenting on the charge that some of the retailers stocked up on the specials when the wholesalers were giving the low prices, and later sold them at regular prices, said that this practice was the result of the fact that many grocers took large quantities of the specials at first, expecting to have a big demand for them during the week of the sale, but had most of them left on their hands. Of course, they sold this at the regular price. Occasionally, there would be a big demand for one of the specials, but it did not bring permanent increase in trade. Some seemed to feel that they actually lost thru handling the cut-price goods as they were not even making their expenses. As to the advertised new articles, there was a difference of opinion. Some retailers report a very brisk trade in some of them. Others say they have little call for them.

In offering low prices on certain goods, the wholesalers were attempting to compete with the two association companies,

which have very generally the reputation of giving lower prices than the regular jobbers. Again it was a case where low prices on a few articles came into contact with a policy of universal low prices. Of course, the retailer believed that it was to his advantage to patronize the association, where he believed prices were generally low, than to go to the wholesalers for a few special rates. As we have seen, many did both. Coupled with this, was the fact, already mentioned, that many retailers believed that the wholesalers put up their prices on other lines to make up for their losses on the specials. Thus, on these two fundamental grounds, the appeal of the plan to the retailers was weak.

The opposition of the Girard and Frankford and the suspicions engendered by them would of course not counteract in any way this weakness.

Mention has been made of plans to give the retailers assistance such as a collection agency, advice on store management and system, and so forth. Apparently, these were not developed. During the first few weeks, according to the statement of one of the officers, a booklet was published and sent to the retailer members of the Community Stores. This however was soon discontinued. The retailers interviewed agreed in stating that there was no attempt to do anything of the sort in their cases. They received no advice, no offers of service of any kind, from the Community Stores. On the other hand, the officers of the company state that it was part of the policy of the plan to give the retailers advice, and that they frequently did such things as fixing up window displays of the specials, getting men to clean up their stores, arrange them more attractively, etc. The agency thru which these activities were supposed to be carried on was simply the salesmen of the wholesalers, so it is quite possible that the retailers received what the wholesalers regarded as Community Store Service without knowing they were receiving it. Practically it seems that all the service meant was a somewhat more critical interest in the retailer's store and methods on the part of the wholesale salesmen.

Another weakness in the plan, from the standpoint of the retailers, was that they had no share in the management or the formation of the policy of the company. It was controlled absolutely by the wholesale members. On the other hand the Girard and Frankford are the retailers' own companies. They put in the capital and own the stock. They elect the officers, determine the policy which those officers are to carry out at their weekly meetings, and they receive the dividends. It is only natural that they should have much more interest in an organization of this latter type than in one which was designed, founded, and operated, professedly for their benefit, it is true, but nevertheless solely and exclusively by the wholesalers. That the latter recognized that this was a weakness is evidenced by the fact that toward the close of the experiment, they were considering a plan for giving the retailers representation on the board of directors of the Community Stores Company. This plan was to divide the territory up into districts, and have the retail members in each district elect a member of the board. Probably six districts might have been made, giving the retailers the same number of representatives that the wholesalers had, excluding the officers, who were members of the board. Thus, the majority would still have been wholesalers, and they would have remained in control of the movement. The retail members might have been little more than advisory members under this arrangement. It would have brought the movement in closer touch with the retailers, and would probably have been of much assistance to them in making up the specials. The retailers from the various districts would have been more intimate with the idiosyncrasies of public taste in their respective districts than the wholesalers or their salesmen could be expected to be.

The appeal of the plan to the wholesalers also had two phases. There was apparently the hope for increased trade, possibly at the expense of the Girard and Frankford and the chain stores. Then there was the desire for better and closer relations with the retailers, to wean them in some degree from their allegiance to their own companies, not only in matters

of the purchasing of goods, but also in their good-will. The ability of the plan to accomplish these two things rested upon its ability to command the patronage of the public, and the support of the retailers. When it failed to accomplish this, it failed to appeal longer to the wholesalers.

We have already seen the other disadvantages which it had, from the standpoint of the wholesalers—the fact that they actually lost money on many of the specials; the fact that, even when they did not actually resell at a net loss, they were handling large quantities of goods without making their overhead expenses, at a time when labor was dear and expenses high; that they had great difficulty in making up attractive specials; that they did not co-operate effectively; and that the plan developed at a time when they, according to their statements, were not feeling the pressure of competition upon the volume of their businesses especially keenly. Had the plan; in return for these disadvantages and costs, actually brought about a large growth in profitable trade, they would no doubt have considered it well worth while. The evidence points to the conclusion that it did not result in such an increase, and this conclusion is corroborated by the fact that it was discontinued.

The wholesalers, as we have seen, refuse to admit that the plan was a complete failure. They maintain that it to some degree at least accomplished one of its objects, that of increasing the good-will of the retailers toward the wholesalers. While they admit that many of the retailers took little interest in the plan and did not co-operate in trying to push the sales of the specially advertised articles, they state that there were thruout the city a large number of retailers, particularly the more enterprising and energetic ones, who co-operated very enthusiastically, pushed the specially advertised goods, made good use of the cut-price specials, and increased their business very materially thru the plan. It is claimed that in one instance, a grocer doubled his business as a result of it. The wholesalers further state that they believe that, as a result of the movement, the retailers have a more cordial feeling toward

the wholesalers. They realize that the wholesalers are interested in their welfare and wish to help them. The writer's interviews with retailers do not furnish much evidence of this, but it must be remembered that they brought him into contact with an extremely small number of the retailers of the city.

The wholesalers argue that the plan would have succeeded in normal times, or in a city where there were fewer wholesalers, and the task of getting complete co-ordination of their efforts was therefore not so difficult.

Altho the Community Stores as a brand and as an advertising trade mark is no longer used, the activities of the wholesalers are still being continued along the same two lines described, tho on a more limited and less systematic plan. The wholesalers connected with the Wholesale Grocers' Sales Company still hold their weekly meetings. They still control the Philadelphia market for certain specialties. There has, according to one of the officers of the Sales Company, been some attempt to give cut-price specials for various districts. In this way, they are trying to overcome the difficulty of the varying tastes of different parts of the city. The pushing of these specials is, however, left to the individual grocers.

One of the best ways of measuring the effectiveness of the Community Stores plan is unavailable. This is an investigation of the actual amounts of the goods advertised under it which were handled by the wholesalers. No accounting was kept by the Sales Company, or by the twenty-four wholesalers of the goods handled by them under the Community Store arrangements as separate from all goods which they were handling at the time. It is apparently impossible, in any case, for a wholesaler to tell exactly how many dollars worth of goods he sold to retailers under the plan. Probably they could get a fair idea by going thru their sales records, but those interviewed profess never to have done this.

It will be noticed that the Community Stores plan was a selling plan, and that it took advantage, in its appeal to the manufacturers, of the fact that the Girard and Frankford have no regular salesmen. This fact enables the two co-operative

companies to make considerable saving in their overhead expenses, but it also represents a weakness, particularly from the standpoint of a manufacturer introducing his products into the Philadelphia field. It will be remembered that the sixth function of the wholesaler, in the analysis in the first section, was to serve the manufacturer by promoting the sales of his goods, and introducing new articles to the trade, and thus to the public. There are various possible alternatives to this method. The manufacturer may introduce his goods thru his own salesmen, or he may introduce and push them thru a strong campaign of advertising, or he may adopt some method of rewarding retailers who are particularly active in selling his goods, by prizes, premiums, or other device. No matter which one of these methods he takes, the cost of the selling campaign will form part of the cost of bringing the article to the consumer. Thus, the chief concern to the manufacturer, will be to determine which method is the most effective; that is which secures the largest volume of sales with the greatest net profit to himself. If a number of manufacturers are convinced that some of the newer alternative methods are more effective than the old one of passing on their products to wholesalers, the latter will, to that extent, be eliminated from the marketing system. It will be a case of survival of the most efficient.

CHAPTER IV

SELLING PLANS OF THE CO-OPERATIVE ASSOCIATIONS

It is interesting to note that in connection with the Girard and Frankford Grocery Companies, with their lack of salesmen, a number of substitute selling plans have been adopted. The special salesmen of the two co-operative firms have been mentioned. The Retail Merchants' Association of Pennsylvania, with which both the Philadelphia Retail Grocers' Association and the Frankford Grocers' Association are affiliated, has put into operation the so-called "Pennsylvania Plan." This is really in the nature of a private enterprise, organized and carried on largely thru the efforts of a firm known as the C. M. Wessels Company. Thru the efforts of this company, the manufacturers of certain products, and the retail grocers' associations thruout the state have been brought into the plan. A manufacturer, upon joining the "Plan," pays a certain sum of money to the Wessels Company. This money received from the manufacturers is used for the promotion and assistance of the various organizations of retail merchants thruout the state, allied with the Retail Merchants' Association of Pennsylvania. The salary and expenses of the state secretary are paid from these funds, enabling him to travel extensively thru the state, organizing the local associations, and at times giving them assistance in campaigns for membership. A contribution to the traveling expenses of delegations to the state convention is made. In addition, the manufacturers associated with the plan seem to make special donations, at times, to the state association for specified purposes.

In return, the grocers who are members of the local associations affiliated with the state association are expected to make every possible effort to sell the products of the manufacturers

supporting the plan, to the exclusion of competing lines. They are instructed to display the goods prominently in their stores, to ask customers to try the goods, to sell that particular article whenever a customer asks for a product without specifying the particular brand. Thus, while the Hershey Chocolate Company is a contributor to the plan, every retail grocer in the state association is expected to make particularly strong efforts to sell that company's cocoas and chocolates to the exclusion of other brands. If a customer asks for "Cocoa," she will be given Hershey's. If she comes to the store to buy other goods, it will be suggested that she try Hershey's Cocoa. If she asks for some other brand, she may be asked if she has ever tried Hershey's. In the discussions of the plan at conventions and elsewhere, it is stated that if the retail grocer makes such special efforts to sell an article, he can frequently sell it to one out of every three persons who come into his store. To encourage the retailers to make these special efforts, prizes amounting to \$2500 are given annually, at the state convention, to the local associations having made the largest amounts of sales of the products in the plan in the preceding year, in proportion to the membership. This money is contributed by the Wessels Company from the funds paid to it by the manufacturers. The local association with the largest record of sales by its members, in proportion to their number, receives the first prize of three hundred dollars. The second prize is two hundred, and there are some eighteen or twenty lower prizes of one hundred dollars and fifty dollars each, so that the "Pennsylvania Plan money," as it is popularly referred to at the conventions, is fairly widely distributed among the associations.

This plan of course simply means that certain manufacturers secure an advantage over their competitors by patronizing the local and state associations of retailers. Instead of giving discounts to the wholesalers who are members of the Wholesale Grocers' Sales Company, or following some other plan of access to the Philadelphia market, they are spending part of their advertising and selling appropriations to assist the

retailers, expecting in return the retailers to give them special service and favors. It is a substitute for the activity of the wholesaler in pushing goods.

There are usually eight or nine firms associated with the Pennsylvania Plan. They vary considerably from year to year. At the present time (August, 1919) the manufacturing members are Joseph Tetley Co., Inc., Rumford Baking Powder, Hershey Chocolate Company, Diamond Match Company, Diamond Crystal Salt Company, Fels & Company, Pillsbury Flour Mills Company, Franklin Sugar Refining Company. Some of the firms which were in the Plan at one time, but dropped out, are Wm. Wrigley, Jr. & Co., the Corn Products Refining Company (makers of Karo), the National Starch Company (Kingsford's Corn Starch), Borden's Condensed Milk Company, Loose-Wiles Biscuit Company, H. O. Wilbur & Sons, Inc., Pacific Coast Borax Company, Thomas J. Lipton, Inc., and the Franklin Baker Company (grated cocoanut). The natural inference is that these manufacturers did not feel that the results of their membership were sufficiently profitable to justify their continuance in it. On the other hand, a number of firms have continued in it for two or three years, among them the Franklin Sugar Refining Company, the Diamond Match Company, and Fels and Company. At the convention in August, 1917, the representative of H. O. Wilbur & Sons stated, "Usually movements of this kind do not interest the local people sufficiently to justify the manufacturer in supporting them. This plan has not been profitable to us; we could not figure any returns that would justify the continuance of it, but we hope it will ultimately prove profitable."¹ Apparently these hopes were not fulfilled, for the firm is no longer listed as a member of the plan. At the same time, the representatives of other companies gave more favorable reports. Mr. Johnson of the Franklin Baker Company, selling Baker's Grated Cocoanut, stated, "We have increased our sales double in six months this year over all of last year in the state of Pennsylvania."² The representative of the Loose-Wiles

¹ *Grocers' Review*, September 1917, p. 504.

² *Ibid.* p. 506.

Biscuit Company said that his company had had an increase in their sales in Pennsylvania of 255 per cent over any previous year, and "we feel that the Pennsylvania Plan has helped to attain this result."³ Yet both of these firms have since withdrawn from the plan. Mr. Wessels himself, the promoter of the plan, said, "A few manufacturers are dissatisfied, but they themselves are largely at fault."⁴

It will be noticed that the plan offers no direct reward to the individual retailer for increasing his sales of the products, except the resulting increase in his own profits. Yet in many cases it is doubtful whether his profit is any more if he sells, say, a sugar or cocoa which is in the plan than one which is not. The inducement offered to the retailer is the possibility of his local association receiving a prize, and the support which is given to the state and local associations. To a neutral observer, it seems as if, in the case of many retailers, this inducement to special effort would be rather weak. For a grocer enthusiastically interested in the local association, and keenly alive to its advantages, it would be a real incentive. But to those who take little or no interest in the associations, and do not realize their benefits, it would amount to but little.

A plan somewhat similar to the Pennsylvania Plan, worked out locally by the Retail Grocers' Association of Philadelphia, in co-operation with the Philadelphia "Inquirer," a daily newspaper, and certain manufacturers, is the so-called "Triangle Plan." Each week, the "Inquirer" devotes a page to the advertisements of special goods, handled by the Girard Grocery Company, being paid for the advertisements by the manufacturers of the respective products. On this page, the triangular initial emblem of the association is prominently reproduced, with the slogan "Deal at Triangle Stores." To encourage the members to make special efforts to sell the goods advertised, several methods have been tried. These have all depended in some form upon the payment of prize money donated for the purpose by the "Inquirer." For some time,

³ Ibid. p. 507.

⁴ Ibid. p. 504.

this money, to the amount of five hundred dollars a month, was distributed in the form of dividends on so-called "Triangle points." These points were awarded by the Girard Grocery Company for three things: the purchases from them of goods advertised on the "Triangle page"; window displays of these goods; and regularity in attendance at the meetings of the association. For instance, under one scale adopted, window displays were judged upon their effectiveness, with two thousand points as the maximum award for such displays; coupons for fifty points were given to the retailers with the purchase of each dollar's worth of merchandise advertised on the "Triangle page"; twenty-five points were awarded for each meeting attended, and an additional twenty-five points were given for attendance at every meeting during a month.⁵ The dividends varied according to the number of grocers who scored and the total scores made. Since there was only a definite sum of money available each month, the larger the scores made, the smaller were the dividends paid on the points. Those paid for a few months will give some idea of their worth, and fluctuations. In November, 1916, a dollar per thousand points was paid on them;⁶ in February, 1917, eighty-five cents per thousand;⁷ in May, sixty-five cents per thousand;⁸ in June, a dollar per thousand.⁹ In November, 1917, the plan was changed. Instead of paying cash dividends to all who made points, it was announced that gold watches would be awarded to the members securing the highest number of points. Two were to be given away each week at the meeting of the associations.¹⁰ Later, it was announced that the accumulation of 30,000 points would entitle a member to a gold watch.¹¹ In January, 1918, the Grocers' Review states, "Our 'Inquirer' Triangle plan now carries awards for watches earned only through window displays."¹² Shortly after this, the plan was

⁵ Grocers' Review, November 1917, p. 630.

⁶ Ibid. January 1917, p. 769.

⁷ Ibid. April 1917, p. 90.

⁸ Ibid. July 1917, p. 282.

⁹ Ibid. August 1917, p. 345.

¹⁰ Ibid. November 1917, p. 630.

¹¹ Ibid. December 1917, p. 678.

¹² Ibid. January 1918, p. 760.

suspended for the duration of the war. Since the close of the war, it has been revived, and is now being conducted under a plan similar to that first described above. Cash dividends are paid on "Triangle points," and these are paid now only for purchases of advertised goods from the Girard Company.

The similarity of this, not only to the Pennsylvania Plan, but also to the Community Stores, will immediately be noticed. In fact, since this was in existence before the latter, it seems quite possible that it may have suggested the advertising idea of the Community Stores to the wholesalers. There was the same attempt to carry on a general advertising campaign of certain products, and link it up with stores displaying a certain brand, where it could be purchased. In the Community Stores plan, the inducement to the retailer to push the sales of the advertised goods aside from the profits to be made in handling them, was simply his general interest in the movement. This, as we have seen, was not likely to be very great. In the Triangle plan, the incentive is supplied more directly, thru the payment of actual cash bonuses on the sales made, or the hope of securing a prize of some sort. In the Pennsylvania Plan, the incentive is the rewards to the local and state associations. Of the three, that of the Triangle plan seems to be the most direct in its appeal to the retailer. Yet even it does not appear to be a complete success. We find the association constantly urging its members to support the manufacturers who are advertising on the Triangle page, and urging them to redeem the coupons given with their purchases of these goods. A typical appeal, which is frequently substantially repeated, may be quoted: "Don't overlook those coupons attached to invoices. They are money in your pocket."¹³ Apparently, some grocers regarded the dividends as so small as not to be worth claiming. Again, they are told, "We believe that all our members should give loyal support to the advertisers in our Triangle page, because these concerns have continued to support us and stand by us in many cases, for the last four years."¹⁴

¹³ Ibid. January 1917, p. 769.

¹⁴ Ibid. June 1917, p. 230.

The Triangle plan appears to have exactly the same objects from the standpoint of the association, as the Community Stores had from that of the wholesaler. It is designed to build up in the mind of the consuming public a good-will for the association and a reputation for its trademark; to attract customers to the stores of the members; to increase the volume of sales passing thru the association; and to secure for the association the support of the manufacturers.

Unlike the Community Stores plan, the Triangle plan does not have any cut-price feature. Neither does it secure for the Girard Grocery Company the sole agency in the city for the products advertised. Nor does it apply so strictly to new or little known articles as did the Community Store plan. Among the manufacturers who have advertised in this Triangle plan are J. S. Ivins Sons (local manufacturers of cakes and biscuits), Hecker, Jones, Jewell Milling Company, Franklin Sugar Refining Company, Chalmers Gelatine Corporation, Armour & Company, Ryson Baking Powder Company, Joseph Tetley Company, Inc., Freihofer Bakery, Libby, McNeil, & Libby, and the Buffalo Specialty Company.

Another plan based upon exactly the same idea of making it to the interest of the retail grocer to sell certain brands of goods to the exclusion of competing ones, is the "Co-operators." This, like the Pennsylvania Plan is a private enterprise of the C. M. Wessels Company. It is developed along the same line, but in a more limited way. In it, Mr. Wessels has brought together about eighty-five of the retail grocery stores of the city, and various co-operating manufacturers. The retail membership is designedly limited to one hundred stores in widely scattered sections of the city, so that they do not compete in any way for trade. Thus they can freely enter into the fullest co-operation, exchanging experiences and plans which have increased sales, without any fear that they are revealing these things to competitors.

The manufacturing members pay to the Wessels Company two hundred and fifty dollars a month. In return, the retail members are to make every effort to sell the goods of the

supporting manufacturers. The unique feature of this plan is the variety of ways in which it is made worth the while of the retailer to put his best efforts into selling the goods of the manufacturers affiliated with the scheme. The Wessels Company furnishes to the retailers a corps of window dressers, who go from store to store arranging window displays. It furnishes signs, placards, price tags, and does other similar printing for its members. It gives to each retail member a weekly advertising newspaper. The Philadelphia law forbids the placing of bills, circulars, notices, or advertisements in streets, vestibules, yards and porches. Newspapers do not fall within the provisions of this bill, and it is commonly evaded by distributing four page circulars, with three pages devoted to items, stories, and articles of a supposedly news character, and the fourth to advertising. "The Co-operator" is such a "Newspaper." A large number of copies of the first pages are printed, and each retailer supplies his own advertising copy for the fourth page. He is required to take at least five hundred copies a week, and may be allowed more. The Wessels Company maintains for the "Co-operators" a service department, giving suggestions for the more efficient conduct of business, forwarding of important information, such as rulings of the Food Administration or market "tips" by telephone or mail, assisting in the hauling of broken motor trucks, and aiding the members in other ways. It gives salesmanship courses to the clerks of the "Co-operators," and prizes for the clerks increasing their sales the greatest amount each month. It maintains a club and clubroom for the members and their clerks. The "Co-operators" meet once every two weeks. At these meetings, they discuss their common problems, meet the representatives of the manufacturers allied with the plan, receive suggestions and instructions for the sale of these particular goods and for the general conduct of their business.¹⁵

This plan involves, unlike the Triangle and Community Stores plan, no attempt to control the channels of wholesale

¹⁵ Detailed accounts of the plan may be found in the *Grocers' Review*, September 1918, pp. 536-540, and in booklets published by the C. M. Wessels Company, 917 Chestnut St., Philadelphia.

distribution. All of the "Co-operators" are members of the Girard or Frankford Grocery Companies, and purchase their supplies thru those two companies. Like the other three plans described, it means that the manufacturer is adopting some agency other than wholesaler's salesmen for the promotion of his goods. Instead of relying upon the regular wholesaler to push his goods, he is offering special inducements to the retailers to push them.

The manufacturer, then, considering the exploitation of the Philadelphia market, had a number of channels of approach open to him. He might follow the beaten trail and depend upon the wholesalers to introduce and push his goods thru their salesmen, with some advertising support from him. He might make a special arrangement with the wholesalers, take advantage of the Community Stores plan, giving the Wholesale Grocers' Sales Company special discounts for their services in promoting his wares, receiving in return the assistance of the wholesale salesmen in vigorously pushing them, and theoretically, a similar service from the retailers affiliated with the movement. Or he might support the "Pennsylvania Plan," paying the Wessels Company, and receiving in return, presumably, the support of the members of the Retail Merchants' Association of Pennsylvania thruout the state. Or he might make a similar arrangement with the "Co-operators," receiving preferential treatment by a limited number of retailers in the city alone. Or, he might support the "Triangle plan," paying his money to the "Inquirer" for advertising space, receiving in return the special efforts of the members of the Retail Grocers' Association of Philadelphia in selling his goods, with the prospect of receiving prizes or dividends from the "Inquirer." Or he might use the special salesmen of the Girard or Frankford. Or, finally, he might send his own salesmen to visit the retailers, selling to them directly or thru any wholesalers, including the Girard and Frankford. In each case, as we have said, there are selling expenses and these will form part of the cost of production of the good, using production in the economic sense of the entire process necessary to bring a good to the final

consumer. Presumably the experience of the various manufacturers will in time show which of these plans are the most efficient. The effectiveness of any one plan will doubtless differ greatly with different commodities. That which is, in a large number, if not all cases, expensive and inefficient, will be given up. Those which combine economy and efficient sales promotion, in a large number of cases will continue.

The most vulnerable point in these plans seems to be that pointed out by the representative of the H. O. Wilbur & Sons Company, quoted above, failure to interest sufficiently the retailer. The rewards offered to him for special efforts are frequently too remote, or too small to arouse any real enthusiasm or effort. Coupled with this, we have the fact that the average retail grocer is not a person of great intelligence or skill. An enterprising, intelligent grocer can without doubt do a great deal in guiding the choices of his patrons, and in selling them articles which they did not intend to purchase upon entering the store. On the other hand many retail grocers have not much ability in this direction. They are limited to giving what is desired, frequently not even suggesting substitutes or additional purchases. All who are familiar with retail grocers as a class agree in stating that there are many among them who are of this type, who lack the skill and tact and judgment necessary to make a real salesman.

One of the weaknesses of the Community Stores plan was just this—its failure to arouse any strong interest in the retailers. Apparently, it is to be counted as one of the plans, at least, which by actual test, was proved less efficient than some of the others. Of all, it made perhaps the weakest appeal to the retailer. Of the various competing plans, the Triangle plan and the "Co-operators" would seem to be the strongest in this respect. The former pays dividends directly to the retailer. The latter gives him a large number of valuable services. The Pennsylvania Plan is less direct in its appeal to the individual.

CHAPTER V

COMPARATIVE ADVANTAGES OF WHOLESALERS AND CO-OPERATIVE ASSOCIATIONS

In the struggle between the regular wholesalers and the co-operative associations, each side has certain advantages. First among the advantages of the wholesalers is that they give credit, while the Frankford and Girard do not, to any extent. Many of the retailers, particularly those doing business on a credit basis with their customers, have to receive credit from their wholesaler to some extent, at least. The result is that some deal with the wholesalers exclusively, while others purchase some of their goods from the associations and the remainder from the wholesalers. A very large proportion of the members of the two associations are in this position. They buy from the Girard or Frankford, perhaps to the extent to which they can make cash purchases, and then on credit from the regular wholesalers. The question naturally arises, why do they not make use of some other means of raising their capital, such as borrowing from banks. Those familiar with the habits of the retail grocer agree in stating that practically never does he try to borrow from a bank. This of course does not apply to the firms carrying on large retail businesses in the center of the city, or the more progressive and prosperous neighborhood stores, but to the typical neighborhood store, with a small stock, and the proprietor and his family carrying on the trade, and serving the customers. There are two fundamental reasons why men of this type do not borrow from banks. In the first place, they are ignorant of banking methods and facilities. As has been remarked in another connection, many of them do not even have bank accounts. In the second place, even though they were desirous of borrowing from a banking institution, in many cases they could not give sufficient security. They do not own their

stores. The equipment may be purchased on the installment plan. Their own capital is represented by accounts receivable, and the stock of goods to be sold.

In connection with the recent campaign carried on by banking interests for the extension of the use of trade acceptance, efforts were made to persuade wholesale grocers to adopt it in their relations with the retailers. For those unfamiliar with the term, it may be explained that a trade acceptance is a draft drawn upon the purchaser of goods by the seller, and accepted by the former. Its distinguishing feature is that its use is limited to obligations arising out of the sale of goods. Under the present system, the wholesale grocer who sells goods on credit to retailers has no evidence of their indebtedness to him except his book accounts. He may secure his own capital by giving his promissory notes, receiving credit from the manufacturers, or borrowing on security from the banks. As opposed to this method, the banking interest supporting the trade acceptance argues that it would have many advantages from the standpoint of the wholesale grocer. He would have the signature of his retail customer to a negotiable instrument as evidence of the debt. The acceptance would be readily discounted by any bank, for as two-name commercial paper, it is specially favored by the Federal Reserve System. Thus merchandising transactions would practically, from the standpoint of retailer and wholesaler, finance themselves. The wholesaler would have his money promptly in hand, and would thus be able to pay manufacturers promptly, taking advantage of all cash discounts. In many cases, it is argued, the gain he would have from these discounts for cash would more than offset the loss suffered thru discounting the trade acceptance. The retailer would have to meet the payment of the acceptance when it becomes due, instead of, as is now frequently the case, carrying an account for long periods, and making occasional part payments. The collection of debts would be removed from the list of duties of the wholesaler's salesmen, for they would be collected by the banks as the acceptances fell due.

The wholesale grocers themselves do not regard the proposal to use the trade acceptance in their business with favor. Various state associations of wholesale grocers and the National Wholesale Grocers' Association have appointed committees to look into the question of the use of the trade acceptance in the business, and the reports of these committees have been against its adoption. The state and national conventions have adopted resolutions stating that while they recognize the value of the trade acceptance in many lines of business, they do not believe that its adoption in the grocery business would be desirable.¹ They argue that there are two important reasons why this is true. In the first place, the sums for which credit are given are too small. The report of the committee on trade acceptance, at the convention of the National Wholesale Grocers' Association in June, 1918, stated that the average grocery bill due from the retailer is for about forty dollars only. Enthusiastic advocates of the acceptance method believe that it is hardly worth while to draw acceptances for less than one hundred dollars, so that they do not seem practical, if the acceptances are to be drawn for single bills. To draw acceptances against occasional large bills, and carry small ones as open book accounts would result in confusion.²

The second reason why the wholesale grocers oppose the adoption of the acceptance is the fact that the present tendency in their business is to shorten the period for which credit is allowed, with the result that in many parts of the country terms have been reduced to thirty days. The statement of wholesale grocers in Philadelphia show that the period of credit there is even shorter. For three representative firms, the average period is fourteen or fifteen days. A fourth, doing what it styles "a high class fancy business," collects its bills on the average, in twenty-eight days. Thirty days is a short term for a trade acceptance, and it does not seem practical to draw them for shorter terms. Those who are

¹ *American Grocer*, Mar. 20, 1918, pp. 4, and 14; June 19, 1918, p. 26.

² *American Grocer*, June 19, 1918, p. 26. Report of the Committee on the Trade Acceptance.

giving thirty days are frequently paid in shorter periods, and hope to reduce the term. The adoption of the trade acceptance would check both of these tendencies toward the reduction of credit. Those who are being paid in shorter periods are opposed to any movement which would mean a lengthening of the term.

A less important argument advanced by the wholesalers against the trade acceptance is that it encourages businesses operated on insufficient capital. A man may increase his business almost indefinitely by accepting for goods purchased, risking his creditors' capital instead of his own. This objection seems to lack the weight of the previous ones. Since the wholesalers drawing upon the retailer would thereby become his sureties, liable in his place if he were unable to pay, they would have just as much incentive to see that the retailer were not taking goods for which he was unable to pay as they do now. Further, it is difficult to see how the acceptance method would encourage the operation of business on insufficient capital any more than does the financing of retail stores by wholesalers. Under the latter method a retailer may and frequently does, carry his accounts much beyond the stipulated terms. The wholesaler will keep him in business by granting him extensions, and accepting part payments on account. With the acceptance method, he would have to pay up promptly or face disaster. The retailer who failed to meet his acceptance would not remain long in business. The other two objections appear to have considerable weight. It seems then that the methods suggested as alternatives to the financing of retail stores by the wholesalers are not at present practical so that as long as the retailers give credit to their customers, and must borrow capital, they will do so by buying on credit from the wholesalers.

Another objection from the standpoint of the wholesaler has been suggested—that mentioned above, that the wholesaler retains a contingent liability under the acceptance, being liable as drawer until the retailer pays. However, in practice,

this is little different from the present system. If the retailer is unable to pay his account, the wholesaler is the loser.

A second advantage enjoyed by the wholesaler over the Girard and Frankford is the better service of the former. As has been stated, the co-operative companies restrict their deliveries to one a week per customer. The Girard charges one per cent of an order for delivering it. The Frankford gives free deliveries, but allows a discount of one per cent to purchasers who regularly haul their own orders. It charges twenty-five cents for each extra order above the one a week. In addition, it has stringently enforced rules as to the days on which orders must be in, and when they will be delivered in the various sections. Further, the deliveries made by the Frankford are only pavement deliveries, while the wholesaler will put the goods in the retailer's cellar or store. Many of the retail stores are run by women. In others, the proprietor may leave his wife in charge. Under such circumstances, it is something of a disadvantage to have to move bulky packages from the pavement. The regular wholesalers will deliver as many orders as a man may want in a week. If a suburban grocer telephones, wants goods in a hurry, and there is no delivery scheduled in his section for a few days, the wholesaler will send the shipment to him by express, altho it may cost more than his profit on the order.

In other ways, the service given by the wholesaler is more convenient. The Frankford, for instance, makes a small charge for breaking a case, that is for selling a man less than a case of goods.

The wholesalers do not seem to have any advantage in the variety and completeness of their stocks. Most of the retailers interviewed state that the Girard or Frankford carry almost anything they want, except private brands of canned goods, preserves, and other commodities. In these lines, many of the large wholesale houses have their private brands with their own labels. The American Stores Company and the two associations also have private brands. For instance, the Frankford advertises "Unity Butter," the Girard "Triangle

Coffee." These private brands can of course be obtained only from the wholesaler whose name appears on the labels. If a retailer is met by a considerable demand among his patrons for a certain brand of canned goods, or coffee, or other article, he will have to go to the wholesaler who handles it to obtain it.

A third tactical advantage of the regular wholesalers is their salesmen. These not only promote the sales of goods, and help greatly in the introduction of new goods to the trade, but they also establish a personal connection between the wholesale house and the retailers. The wholesale salesman not only sells the retailer goods, but also gives him suggestions and advice as to the conduct of his business, the trend of the market, the prospects of increasing or falling prices. During the war, the Food Administration depended to a large extent upon the wholesale salesmen to keep the retailers informed as to the regulations, to explain the various rulings and calculations involved in figuring margins, and other points to them. Many retailers depend to a great extent upon the advice thus received. They stock up with an article when the salesmen tell them that the price is likely to increase, or hold off when he advises them that it is likely to go down. It is thus possible for a wholesale salesman to exercise considerable influence over his retail customers.

In contrast with these advantages of the old type wholesaler, there is another series of factors which work to the advantage of the co-operative associations. In the first place, they have extremely low costs of doing business, due in part to the curtailment of service, and in part, apparently, to the superior organization. In place of the eight to ten per cent of total sales which is the cost of doing business, on the average, for the wholesale grocer, the Girard Company, according to its annual reports, has a cost of little over three per cent. For the fiscal year ending June 30, 1918, it was 3.32 per cent; for that of June 30, 1919, 3.42 per cent.³ The Frankford Grocery Company states that its cost of doing business runs about 3.5 per cent per year. It is interesting to inquire where

³ Grocers' Review, August 1919, p. 388.

the Girard and Frankford make this saving. According to the Bulletin of the Harvard Bureau of Business Research, the common operating expenses in the wholesale grocery business, listed according to items, are as follows:

Item	Percentage of Net Sales
Total salesforce expense.....	2.3
Advertising.....	0.07
Other selling expenses.....	0.06
Total selling expenses.....	2.5
Salaries and wages of receiving, warehouse and shipping force.....	1.15
Packing cases and wrappings.....	0.04
Outward freight, Express, Parcel Postage, and Cartage.....	0.4
Total receiving, handling and shipping expense.....	1.6
Salaries of buying force.....	0.35
Other buying expenses.....	0.03
Total buying expense.....	0.4
Executive salaries.....	0.5
Office salaries.....	0.7
Postage and office supplies.....	0.23
Telephone and telegraph.....	0.05
Credit and collection expense.....	0.06
Other management expense.....	0.1
Total general management and office expense.....	1.6
Total interest.....	1.55
Rent.....	0.4
Heat, light and power.....	0.05
Taxes.....	0.2
Insurance (except on buildings).....	0.11
Repairs of equipment.....	0.05
Depreciation of equipment.....	0.1
Total fixed charges and upkeep expense.....	2.5
Miscellaneous expense.....	0.11
Losses from bad debts.....	0.3 ⁴

Of these items, the Girard and Frankford, as a result of their method of doing business, do not have the salesforce expense (2.3%), and losses from bad debts (0.3%) are practically nothing. These, however, amount to only 2.6 per cent, while the figures of the two companies are about 6 per cent less than those given as common by the Bureau. The co-operative companies probably also make considerable reductions in their expenses under advertising (0.07%) and other selling expense

⁴ Bureau of Business Research, Harvard University, Bulletin No. 9, p. 5.

(0.06%). They actually do very little advertising. The associations advertise considerably, but the money comes out of the association funds, presumably, not out of the grocery business. The Girard would practically eliminate the outward freight (0.4%) and, with the Frankford, it would be materially reduced. As a result, the expenditure for packing cases and wrappings (0.04%) would also be reduced. The associations state that their executive salaries (0.5%) are much lower than those of private firms, and this is probably another source of saving. The secretaries of the associations, who are the managers of the grocery businesses, maintain that their salaries are not so high as those of men in corresponding positions in private firms. The members of a firm usually pay themselves substantial salaries, and expect a profit in addition. A related charge is that brought against the private firms by the co-operative managers that the former have unnecessarily large office forces. The heads of the firm can take a month's vacation, and the business will run along as usual. It is not so easy to dispense with the manager of a co-operative house. He must be on the ground, or in constant touch with the business for it to run smoothly. On the other hand, the wholesalers argue that they frequently carry on their business on small or no profits. In a bad year, they will draw little or nothing out of the business, not even crediting themselves with salaries. Probably such a condition does not occur for many years in succession, however. In many cases, it has been something of a personal sacrifice for a manager to remain with a co-operative association. The simplicity of organization incident to the lack of extended credit probably means a saving in office salaries (0.7%), also, and perhaps in postage and supplies (0.23%). Credit and collection expenses are doubtless lower than for the usual wholesaler (0.6%), and there may be a slight reduction in other management expenses (0.1%).

There does not seem to be any reason why the other items included in the above list should be lower for the co-operative houses than for private wholesalers, yet, if they figure their

expenses upon the same basis, such must be the case. The total of the items mentioned above, in which it seems fairly certain that they must make some saving amounts to only 2.16 per cent, while added to the elimination of salesforce expense and losses from bad debts, the total is but 4.76, while the total difference in favor of the associations is 6.5. The Bulletin gives the low and high as well as the common figures for each of the items in the above list. Taking the lowest figures for all items, except salesforce, advertising, packing, outward express, and credit and collection and losses from bad debts, the sum is 2.72 per cent of total sales. Thus, assuming that the methods of figuring the costs are substantially similar, a fact upon which the Frankford and Girard are unwilling to throw any light, the figures show that, after the elimination of salesforce expense and losses from bad debts, other expenses are reduced to the minimum of the most efficiently managed private firms.

A second advantage of the co-operative associations is rapid turnover of capital. The Harvard figures give the turnovers for regular wholesalers as varying from 2.8 times per year to 11.6 times, with the common figure about 5.7 times. For the year ending June 30, 1918, the Girard Grocery Company claims a turnover of 16 times during the year. For the following year, it claims a turnover of 14.⁵ The Frankford Grocery Company states that its turnover is about twelve. This, it will be noted, is just about that of the highest private firms. The Girard's figures are much higher, and can be explained upon the basis of its larger sales. Handling the large quantities of goods which it does, it is in a position to turn over its capital very rapidly.

The low cost of doing business would enable the Girard and Frankford companies to either pay very high dividends, or to sell at much lower prices than do the regular wholesalers. There is no doubt that they do the former. They maintain that they do the latter. The representatives of the associations claim that their prices to the retail grocer are from five

⁵ Grocers' Review, August 1919, p. 388.

to fifteen per cent lower than those of the wholesalers, with ten per cent as being perhaps the average difference. An examination of price lists would seem to be an easy method of checking up this statement, but as a matter of fact presents many difficulties. Many of the items on a price list of a private wholesaler and that of one of the associations are dissimilar. Even when prices are given on the same article, the quotations may be for purchases at different times and different prices. Discounts may be given for larger purchases by retailers. A comparison of price lists, to be thoroly valid, should be carried on over a considerable period of time. A careful examination of price lists, however, seems to bear out the contention of the associations that they do sell numbers of articles at prices lower than those of the wholesalers. The evidence of those connected with the grocery business appears to have value on this point, for they are familiar with price ranges over several years. All the retailers with whom the writer has discussed the question agree that the prices of the Girard or Frankford are lower as a general rule. They say that occasionally a wholesaler will make a lucky purchase, and offer certain articles more cheaply than the associations, but that these cases are exceptional. Even grocers not connected with the associations, and not purchasing from the co-operative houses admit that their flat prices as quoted are lower. When asked why they did not deal there, they usually said, "The wholesalers do more for you. They'll deliver the goods when you want them, send salesmen around after your orders, and help you over tight places. They're anxious to please you." Finally, nearly all of the wholesalers interviewed admitted that the two co-operative associations sell, as a rule, more cheaply than do they themselves, if flat prices are taken as the basis of comparison. But they present another view of the case. They argue that the difference is about five per cent. Remembering that the Girard and Frankford allow very short credit, the wholesaler says that their prices should be compared to his after the deduction of a discount for cash of one or two per cent. Then there would be added to the

prices of the Girard, one per cent for hauling. Add the charge for breaking cases, the twenty-five cent charge for extra orders during the week, and the annual dues of the association, and there is not much difference. If there were, the wholesalers argue, they would soon have to go out of business. This argument has a certain strength, but it seems to underestimate the savings offered by the associations on many articles. It seems then that we must include lower prices as one of the advantages which the co-operative associations have in the struggle with the wholesalers.

A fourth advantage, closely allied to this, is the fact that these two wholesale houses belong to the retail grocers themselves. As a result they command the interest and loyalty and sentimental support of the grocers to an extent to which a regular wholesaler never could. Not only that, but they are distinctly profitable. The dividend record of the two firms has been given, showing that they are highly desirable investments for the retail grocer.

On the other hand, the co-operative associations because of their organization are subject to certain weaknesses. Many retailers who admit that their prices are lower, say that they prefer to deal with wholesalers, because of the better service. Very likely, the requirements of the Girard and Frankford of prompt payment is a feature which bars many, and which they would be least likely to mention. In some cases, however, the writer has found grocers who dislike the associations because of the rigidity with which they enforce their rules, and what they term their "independence." As one retailer expressed it "They act as if they didn't care whether you gave them your trade or not. They think they're doing you a favor when they let you deal there. The wholesalers are always anxious to get your orders."

As in many co-operative enterprises, the success, particularly in the early stages, seems to depend very largely upon the ability of the small group who are back of the movement, and giving it their support, and upon their earnestness and enthusiasm. Frequently, it reduces itself to dependence upon one

individual. The Frankford Grocery Company, in particular, seems to have been built up by the present manager. He was the moving spirit in the old original buying exchange, and he has worked with the grocers of Frankford for twenty-six years, preaching co-operation and organization, refusing offers to go elsewhere at higher salaries.

In this connection, it is interesting to note that several attempts have been made to organize other co-operative wholesale grocery companies in the city. As far as the writer knows, all have ended in failure. The Richmond Grocery Company was started as a co-operative company of Polish grocers. There were, according to the manager, thirty members. They subscribed the capital, amounting to \$6000, and were to share the profits. It was in operation for a couple of years, and then broke up. The venture does not seem to have yielded the expected profits. The manager said the trouble was that the capital was too small, and urged the members to put in more funds. This they refused to do, and withdrew. The former manager is carrying on the business as a private enterprise.

Another attempt at the formation of a co-operative wholesale grocery company was the Standard Grocery Company. It was organized as such, and had, according to the statement of the former manager, two hundred and twenty-five members at the time of its largest development. It aimed to operate on much the same plan as the Girard. The capital was divided into twenty-five dollar shares, and subscribed by the retailers. Purchasers were to pay their bills weekly. This company operated as a co-operative enterprise for about a year, and then met the fate of the Richmond Company. The trouble, apparently, in this case, was inability of the retailers to pay their bills as required. They were all small grocers, and had much difficulty in raising the capital to put into the company, and meet their debts on time. Like the Richmond, it has continued business as a private company.

These two examples show that it is not inherently an easy task to organize a successful co-operative grocery business.

In fact, in Philadelphia at least, in this, as in every other business, the failures outnumber the successes. The requisites for success are a number of enthusiastic retailers, and an organizer who combines business ability with power of leadership and willingness to serve at a sacrifice.

The Girard and Frankford Companies have found these essentials in their early days, and are now dominating factors in the distributing system of Philadelphia.

CHAPTER VI

EFFICIENCY OF THE CO-OPERATIVE ASSOCIATIONS

Two questions have been suggested in regard to the development of the Girard and Frankford Companies. The first of these was: What is the effect of this development upon the efficiency of the system of distributing groceries? Of the functions of the wholesale grocer, the co-operative associations can perform four at least as well, and in some cases better, than the regular wholesaler. The latter applies to the receiving of quantity shipments from the manufacturers. The co-operative associations, because of their large size, can do this better than the single independent wholesaler. They can take larger shipments, with the resulting saving. The formation of the Wholesale Grocers' Sales Company is evidence that the wholesalers in Philadelphia, as individuals, did not command sufficient business to be able to fulfill this function in the most economical manner.

2 x The associations can store the shipments just as efficiently as the wholesalers.

3 The success with which they can regulate the flow of goods to the local markets depends largely upon the ability of the managers. If they secure efficient managers, thoroly familiar with the local conditions and with the grocery trade outside as a whole, there is no reason why they cannot do this as well as the regular wholesaler. The one feature of their methods which might in any way be a handicap is the fact that they do not indulge in speculative transactions. Thus it is that the regular wholesalers occasionally are able to undersell them. Their prices and dividend records show pretty clearly that this is not much of a handicap. Reckoned upon sales, the profit of the Girard is not so high as those of regular wholesalers. According to the figures of the Harvard Bureau the

common net profit is 2.4% of sales.¹ From the statement on page 23 preceding, it will be seen that for the year ending June 30, 1919, the profit of the Girard was \$104,794.72. This is only 1.73% of the total sales of \$6,053,417.65. The rapid turnover of the Girard brought the dividend earned on capital, however, up to 21%. With a manager of ability, the co-operative companies ought to be able to perform the function of regulating the flow of goods more efficiently than the regular wholesalers. They have a closer touch with a larger number of retailers than have the latter individually.

4) Finally, the co-operative company is just as capable of accounting for the goods handled as is a private firm.

These companies, however, fail to perform two of the functions of the wholesaler. 1) They do not finance retail stores and they do little to promote the sales of goods, and introduce new articles. 2)

Nor do they perform as efficiently as the regular wholesaler the function of furnishing the retail stores with the goods needed, at the time they are required.

The fact, however, that the co-operative associations fail to perform certain of the functions usually performed by the wholesale grocer does not necessarily of itself condemn them. It simply brings up the further question, Who is performing these functions in the large number of cases of retailers dealing with the associations, and are they being performed more or less efficiently? The consideration of this question may show that because they have eliminated certain features of the wholesaler's activity, they are more economical instruments of distribution.

Probably the majority of the grocers who are members of the two associations also buy considerable quantities of goods from the regular wholesalers. While they pay promptly for the goods purchased from the former, they get credit, for a short period at least, for the latter. The influence of the associations, then, is to restrict the retail grocery business to those who have some responsibility and capital, and to

¹ Bureau of Business Research, Harvard University, Bulletin No. 9, p. 5.

encourage prompt payment of bills. It cannot be said that it has accomplished either of these, because the grocer who has small capital can still secure credit from the wholesalers. Recently, however, they have also tightened up their credit requirements. The fact that for at least three of the Philadelphia wholesale firms, the period of credit averages about two weeks has been mentioned. This appears to have been a development of the last two or three years, and to be largely a result of the greater harmony of interests brought about by the Wholesale Grocers' Sales Company. The same pressure which has forced the wholesalers to combine their purchases to secure the most favorable terms has led them to co-operate in making their credit extensions more strict, and requiring the retailers to be more prompt in payments. That pressure has largely come from the influence of the co-operative associations. The wholesalers have, to a certain degree, been forced to approach their methods.

In this connection, it should be recalled that the retailing process is the most expensive in the whole course of agencies which bring goods to the consumer from the manufacturer. One of the reasons suggested for this, both by many connected with the business, and by outside students, is that there are too many retail stores.² There is much evidence that this can be substantiated in the case of grocery stores in the city of Philadelphia, at least. Along the streets devoted to small retail stores in the residence neighborhoods, such as Frankford Avenue, Germantown Avenue and Ridge Avenue, there will frequently be two or three grocery stores to a block. In many places, two of the corners of intersecting streets will be occupied by grocery stores. In 1910, there was in the city one retail grocery store to every 59 families, or 295 people, not including delicatessen and other stores selling groceries as a "side line." It was estimated that the trade from 59 families

² See for example, Seager, *Principles of Economics*, p. 498; *Grocers' Review*, September, 1917, p. 494. The last, an address by Carl H. Fast states that in England the cost of doing business in retail chain stores is 10%, while in the United States, it is 20%, and says "Credit has been extended in the United States beyond all wise limitations in the wild scramble for business." The opposite view is taken by L. D. H. Weld in *The Marketing of Farm Products*, p. 437.

was sufficient to allow a grocer an income of \$640 or less above expenses.³ A neighborhood does not require three or four stores within one block to serve it, yet the average city block contains more than fifty-nine houses. This duplication of capital and effort results in inefficiency, high prices, and low rewards for the retailers. Furthermore, it is extremely easy to enter the retail grocery business. Those familiar with the situation in Philadelphia state that within the past few months, a large number of newcomers have entered the business in that city. Many have succeeded in saving a small sum as a result of war prosperity, and are investing it in a grocery store. It is estimated that with three to five hundred dollars, and credit, a person can open a store. Here again, the influence of the co-operative associations would be to render it less easy to open new stores, and to decrease the number of stores, thru their more stringent credit requirements.

The failure, then, of these associations to give credit for extended terms, is not a cause for condemning them on the charge of inefficiency, but rather an introduction of more efficient and economical business methods. Its net tendency is to restrict the business to those who can finance their own stores, instead of depending upon the wholesalers. This means that the retail grocery business would be restricted to those who have some capital and responsibility. This would tend to decrease the number of stores, and reduce the costs of distribution. This tendency has not operated very strongly because of the continuation of the old methods of the wholesalers, but insofar as they have modified their methods to meet the competition of the Girard and Frankford in the matter of credit, the influence of those two companies has been a thoroly healthy one.

The second function which the Associations fail to perform is that of promoting the sales of goods, and introducing new goods. The lack of salesmen is at the same time one of their weaknesses and their greatest single source of saving. The

³ E. M. Patterson, Co-operation Among Retail Grocers in Philadelphia, in *American Economic Review*, Supplement, Vol. V, No. 2, pp. 280-281 (June, 1915).

figures of the Harvard Bureau, quoted above, show that total salesforce expense is the largest single item in the list, amounting to nearly one-fourth of the total expenses. For some firms it runs as high as four per cent of net sales.⁴ The experience of the co-operative associations shows that for certain lines of goods, the services of the salesmen are not necessary, from the standpoint of the community at least. Socially, the most important function of the salesman is an educational one. He introduces new articles to the retail trade, informs them as to market conditions, advises and suggests to them in regard to business methods and opportunities, and promotes the sales of various goods thru convincing the retailers of their merit. Theoretically, the retailer is then supposed to convince his customers of the merits of the articles, old or new, and thus educate them to economical consumption.

This theory seems to break down completely with regard to at least two general lines of goods—staple articles and nationally advertised goods. The consumer does not need the educational efforts of the retail grocer to persuade him to use sugar, flour, or the various nationally advertised articles, such as the products of the National Biscuit Company. These goods can be marketed in large quantities without the assistance of the wholesale grocer's salesmen.

From the standpoint of the wholesaler, the services of his salesmen are important for three reasons. They are expected to increase the sales of the goods like these, for which there is a considerable demand without active selling efforts. They are necessary for the introduction of new articles. Much of their usefulness comes from the fact that the wholesale grocery business is competitive, and the salesmen are necessary to win and hold trade from competitors. One retailer will be visited by the representatives of a number of wholesalers, each trying to persuade him to take the same or similar lines of goods. Just as the duplication of effort and equipment in numerous retail stores means reduced efficiency and high costs of distribution, so the duplication of effort of competing salesmen of the whole-

⁴ Bureau of Business Research, Harvard University, Bulletin No. 9, p. 5.

salers leads to the same results. The resulting high cost of distribution will tend to cause a higher price scale to the consumer. According to accepted economic theory, the price of a supply of goods is fixed at the point where the marginal or last unit will be sold. As supply is increased, demand remaining the same, the price at which the marginal unit will be disposed of will be lower. Thus, the price of the entire supply will be lowered. This price cannot remain, for long periods, below the cost of production, including the marketing process, of those marginal units. In the wholesale grocery business, the marginal units would be those contributed by the least efficient firms. Products will not be marketed for long at prices too low to cover these expenses. If such marginal firms are not making expenses, they will go out of business. The supply of goods will be slightly decreased, with a corresponding increase in price, or else the goods will be handled thru more efficient firms with lower costs. In the latter case, an increased supply and a lower price is made possible.

In the past, many goods handled by the wholesalers have not been increased in price by a margin sufficient to cover the cost of handling them. The twelve to fourteen per cent increase mentioned at the beginning of the paper is simply an average. Many goods are handled with a much smaller increase. Sugar is frequently handled by wholesalers with an increase of but four per cent. Other staple lines have similar low margins. These are made up by large increases on other goods, especially special lines and fancy articles. Some lines of certain canned goods may be handled by wholesalers with a gross profit of fifty per cent of sale price—an increase of one hundred per cent of purchase price. Under the regulation of the Food Administration during the war, these high margins were, in the cases of regulated commodities, cut down, while on some of the staple lines, such as sugar, margins of profit larger than had been customarily made by many wholesalers were allowed, on the theory that these should bear their cost of handling. The wholesalers now seem to be trying to maintain these larger margins on staples. In the trade

journals and at various conventions, the advisability of making sugar continue at least to bear its share of the expenses has been urged. But whether every article handled by the wholesaler is increased in price by just the amount which it costs to handle it plus profit, or not, the public ultimately pays the costs, either in increases on all articles, or in specially large increases in certain restricted lines. If the expenses of marginal firms are high, the result will be a restriction of supply, and a consequent price level higher than could be possible if more efficient methods of marketing brought more goods to consumers at lower costs. The cost of marketing is increased by the expensive wholesale salesmen, competing with each other, and duplicating each other's work.

As compared to the regular wholesalers, the co-operative associations are able to market larger quantities of staples, nationally advertised goods, and well known articles without the services of salesmen than the individual wholesalers are able to sell with salesmen. By eliminating the expense of salesmen, they do this marketing in a more efficient and economical manner. This enables them either to undersell the regular wholesalers, or to make larger profits. Theoretically, it should result in a larger supply of goods, thus bringing a lower price.

It is interesting to note in this connection that some of the wholesalers have given consideration to the plan of changing their methods by restricting their own use of salesmen. None has actually given up the employment of salesmen, but the writer was informed by a member of one of the firms associated with the Wholesale Grocers' Sales Company that they had sent out a series of letters to a number of manufacturers asking them if they would regard it as desirable for the regular wholesalers to abolish their salesmen, or cut down their activities very considerably, and adopt the method of selling thru circulars giving prices and goods in stock, the way the co-operative associations do. The responses were very generally in the negative, showing that the manufacturers felt that the services of the salesmen were valuable to them. At

the same time this fact is evidence that the condition is what the laws of economics would lead us to expect. The reduced costs of the co-operative associations enable them to increase the supply, and bear the resulting lower prices better than the regular firms with higher costs. These, with profits eliminated, must then reduce their expenses, or disappear from the market.

Nor do the replies of the manufacturers necessarily negative the conclusion reached above that for well-known or nationally advertised goods, from the standpoint of the consuming public, the associations stand for more economical methods of distribution. The method which, for competing manufacturers, is profitable, may very well be the one which for the public ultimately bearing the costs of that competition is less efficient. The salesmen of the wholesalers do represent such a less efficient method because they are rendered unnecessary as educational factors by advertising, because they largely duplicate each other's efforts and work, and because their chief activity is not educational at all, but simply consists in endeavoring to win business for their particular houses. Here again, then, as in the case of the failure of the associations to give extended credits, the very fact that they do not fill all the functions performed by the usual wholesaler means that they stand for more efficient business methods.

The third function which the associations do not perform so completely as the independent wholesaler is that of furnishing goods at the time required. They will make only one delivery a week, and will accept extra orders only upon making an extra charge, whereas the wholesaler will usually deliver an unlimited number of small orders to the same retailer.

There does not appear to be any valid reason why a well-managed retail store ought not to be able to get along on one delivery of groceries a week, except in very unusual circumstances. The articles included in groceries are not perishable goods. The experience of the retailer ought to enable him to forecast with a fair degree of accuracy the demand for at least a week ahead. If he has any familiarity with his stock, he should be able to tell what lines are running low and should

be replenished. Of course, many retail grocers fail to do these last two things. They make little attempt to forecast demand, and do not realize that their stock of certain articles is low until they suddenly discover that their shelves are nearly empty of them. To such, the method of the associations is a stimulus to more efficient merchandising systems. Here again, in discouraging extra deliveries, the co-operative associations stand for more efficient business methods.

It seems then that the answer to the first of our questions, What is the effect of the development of the co-operative associations upon the efficiency of the system of distributing groceries, must be that they have tended to make that system more efficient. Simply because of their large size, they can receive quantity shipments from the manufacturers, store the goods and regulate the flow of goods, if efficiently managed, more economically than can the independent wholesalers. Thru their credit restrictions, they tend to limit the business to responsible persons, using their own capital and capable of operating a store with a certain degree of business efficiency. Indirectly, they have led to a general tightening of credits by the wholesalers of the city. They represent a tendency, which if continued, would result in a desirable reduction in the number of retail grocery stores. They eliminate the activities of the salesmen in connection with a large number of commodities for which they are not necessary. In the matter of deliveries, they require the retailer to keep a closer watch on his stock and get along with fewer deliveries.

The second question raised in connection with the development of the associations was, Do they represent a tendency toward the elimination of the wholesaler? While the co-operative associations represent more efficient methods, for many reasons it seems unlikely that they will ever completely supplant the older type of wholesaler. From the standpoint of the retailer they have certain limitations. In the first place, many require credit, those who give credit to their customers in particular. As long as the public demands credit the business cannot be carried on on a strictly cash basis, without an

unwarrantedly large investment of capital by the retailers. Even the members of the Girard and Frankford must have credit to some extent, and depend upon the wholesalers for it.

Again, many retailers are unable to meet the entrance requirements of the two associations. While this does not prohibit them from purchasing from the Girard or Frankford, they can do so only upon the payment of cash. They are able to do this only to the extent of a very small percentage of their total purchases, so that the vast majority of them depend entirely upon the wholesalers.

Another disadvantage from the standpoint of a certain type of retailer is the lack of salesmen. The wholesale salesmen supply to the wholesale trade a personal touch somewhat analogous to that which the independent store supplies in the retail trade, in contrast with the chain stores. He brings the wholesaler into direct personal contact with the retailer. He aims to make the retailer feel that the wholesaler is interested in him and willing to assist him. Many retailers depend to a large degree upon the wholesaler's salesmen for information and advice. As an offset to this lack of personal touch thru salesmen, the associations have the fact that they are organized, financed, and controlled by the retailers themselves. Because of this they can command the loyalty of their members. But with many grocers, interest and influence in an association shared with seven hundred or sixteen hundred competitors makes less of an appeal than the direct personal contact with the salesman.

The lack of salesmen is likewise a disadvantage from the standpoint of certain manufacturers. Those who are introducing new articles will probably still find it to their advantage to avail themselves of a wholesaler's salesmen. Those who have well established brands may find it profitable to use the same agency, under certain conditions. As we have seen, none of the other agencies attempting these things seem to give complete satisfaction in all cases.

It is interesting to note that a somewhat similar development in the drug trade has not resulted in the elimination

of the wholesaler. The article by L. D. H. Weld⁵ referred to earlier describes thirteen co-operative associations of retail druggists carrying on wholesale businesses. The business methods of these associations are quite similar to those of the Girard and Frankford. They limit credit, allow it only to members who have stock or cash on deposit, and employ no salesmen.

The oldest of these is located in Philadelphia. It was organized in 1888 and has had a continuous and successful existence. It includes about half of the retail druggists in the city as its customers. Yet the regular wholesalers are still dominant in the Philadelphia drug trade. The retail druggist is in much the same situation as the retail grocer. He needs a certain amount of credit and must get it from the wholesaler. He needs certain lines of goods which the co-operative association does not handle. Thus while the co-operative association of druggists handles goods more cheaply than the regular wholesaler, and pays good dividends to its stockholding members, the retailers must still depend to a large extent upon the regular wholesalers.

From these facts it seems safe to assume that while the co-operative associations represent a curtailment of the function of the wholesaler with a tendency toward more efficient and more economical distribution in certain lines, the regular wholesaler will still be a necessary factor in our distributing system.

⁵ L. D. H. Weld, *Co-operative Buying by Retail Druggists in the Druggist Circular*, Vol. lxi, pp. 119-123 (March 1917).

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